dent. F. A. P. Barnard

THE

from the author.

PUBLIC DEBT

OF THE

UNITED STATES.

ITS ORGANIZATION:
ITS LIQUIDATION:
ADMINISTRATION OF THE TREASURY:
THE FINANCIAL SYSTEM.

BY

J. S. GIBBONS,

Author of "THE BANKS OF NEW YORK and THE CLEARING HOUSE."

The administration of finance is a train of thoughts, and at the same time a series of operations.—NECKER.

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1867.

TO

WILLIAM H. LEGGETT,

TEACHER,

OF NEW YORK,

This volume is dedicated, as a part of the tribute due to him from Society, for his long and faithful service in the most arduous, most meritorious, and least compensated of all employments.

By his friend,

THE AUTHOR.

CONTENTS.

NOTE.—The freedom with which the author has criticised the policy and measures of the Treasury Department makes it proper to say that he found no provocation thereto in the Report of Mr. Fessenden, whose tenure of the office of Secretary was more accidental than otherwise, and who was not called upon to announce principles or to initiate methods, but, only to follow out those which were determined upon by his predecessor.

GENERAL INTRODUCTION.

The National Debt is the subject, above all others, which fills the thoughts and claims the anxieties of every serious mind in the country.

It is a movable weight on the deck of our ship of State, which, by proper regulation may give it stability and govern its course, or by bad management may keep it rolling dangerously from side to side, to the common alarm and injury.

As the control of this weight, under existing laws, is necessarily entrusted for the greater part to a few persons, it is a source of double disquietude and apprehension—on one hand from the possible incompetence of the management, on the other from the power that it gives to serve personal or party ends.

Before the rebellion the public treasury was only a subsidiary of the government; the people were hardly conscious of its existence. Now, its proportions are great enough to be their master. It lays its hand heavily on their daily life—on all their labors, their wants, and their enjoyments.

The necessity of a yearly revenue of several hundred million of dollars gives law to industry, imposes regulations that govern production, and already begins to injure the employments of the people.

The following extracts are taken from the last

Report of the Secretary of the Treasury to Congress, presented December 3, 1866. (pp. 24, 25.)

"The prices of labor and materials are so high that ship-building cannot be made profitable in the United States, and many of our ship-yards are being practically transferred to the British Provinces.

Timber can be taken from Virginia to the Provinces, and from these Provinces to England, and there made into ships which can be sold at a profit; while the same kind of vessels can only be built in New England at a loss, by the most skilful and economical builders. But the evil does not stop here: if the only loss was that which the country sustains by the discontinuance of ship-building, there would be less cause of complaint. It is a well-established general fact, that the people who build ships navigate them, and that a nation which ceases to build ships ceases, of consequence, to be a commercial and maritime nation. Unless, therefore, the causes which prevent the building of ships in the United States shall cease, the foreign carrying trade, even of our own productions, must be yielded to other nations.

So high are prices of every description that men hesitate to build dwellings as fast as they are required, and thus rents are so advanced as to be oppressive to lessees, and the healthy growth of towns and cities is retarded. So it is in regard to manufactories. Mills which were built before the war can be run profitably, but so expensive are labor and materials that new mills cannot be erected and put into operation with any prospect of fair returns upon the investment, unless upon the expectation that taxes will remain as they are, and prices be sustained, if they are not advanced. The same causes are injuriously affecting agriculture and other inter-

ests which it is not necessary to particularize. It is everywhere observed that existing high prices are not only oppressing the masses of the people, but are seriously checking the development, growth, and prosperity of the country."

The Honorable Secretary, perhaps wisely, considering his official position, leaves it to others to complete the details of his sketch.

If ship-building can no longer be profitably carried on in the United States, what is to become of the laborers heretofore employed at it? What is to become of the carpenters, and of the carpenters' children; of the caulkers, and of the caulkers' children; of the joiners, and of the joiners' children; of the miners that produce the metals used in the art; of the metal workers; of the painters, varnishers, and glaziers; of the founders and the engine-makers; of the furnishers and the upholsterers; of sailors, clerks, coal-heavers, and so forth?

If the manufacturers stop their spindles, what is to become of the army of men and women, boys and girls, to whom they have heretofore given employment?

If capitalists cease to build houses, where will the brickmakers, hodmen, masons, hardware and crockery dealers go for a living?

If the labors of agriculture become embarrassed, what will save us from famine?

These are ominous questions, suggested by the most important bureau of the government—the most important because the most influential in its positive bearings on the general interests of the country.

The Secretary of the Treasury embraces the whole subject, in one sentence, as follows:

"How shall the necessary revenue be raised under a system of internal and external taxes, without sustaining monopolies, without repressing industry, without discouraging enterprise, without oppressing labor?" (*Report of December* 3, 1866, *p.* 23.) But we are disappointed to find that he considers it "a question of adaptation rather than principle," and that he declines to discuss it.*

If we could be persuaded that there is no starting point of scientific accuracy at which to begin the practical treatment of our affairs, no guiding principle to apply in their administration, we would at once despair of seeing them brought into a satisfactory train. Their existence, simply, must be taken as proof that there are laws and principles in them, perfectly suited to their direction, and discoverable by us on due diligence and perseverance.—To assist in such discovery is the main purpose of this volume.

It is not, now, difficult to see the connection between our public debt, and the labors of the people—between the administration of that debt, and the welfare, the freedom, the organic life of the Republic. We use these significant expressions because we desire to surround the subject with all the gravity and all the alarms that belong to it.

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* "The Secretary is not disposed to discuss the question in this report." p. 23.

"The Secretary does not intend to discuss it." p. 26.

Great as is the calamity of war, it is not so great a calamity as the oppression of labor by excessive and perpetual taxation. The one bleeds part only of a single generation; the other sends its consequences down through successive generations, and condemns the body of the people to exhaust their life in earning a bare and uncertain subsistence.

The great mass of the human family in all countries live by labor. The number of those who possess income is small compared with the multitude who are dependent on wages, or on the returns of some kind of daily work. The highest function of government is, therefore, to protect the natural rights of labor by every law and practice necessary to make it sufficient, not merely for the wants of the body, but for the wants of the mind also. The sufficiency of labor to these ends enables the man to gain that point of self-respect without which morality scarcely becomes a part of action—below which there is hardly a motive to public duty, or a sentiment of social sympathy, but in their place, selfishness and misanthropy.

It may be affirmed that no government is safely founded where labor is not recognized as the primary interest of the State. The State is then naturally divided against itself. Revolution waits only for popular intelligence to wake it up, and the State must fall.

The Public Debt brings the government of the United States to this issue. Labor is oppressed in all its branches. By the operation of excessive taxes, capital accumulates in the hands of the

few, and tends to form a wealthy class, which gradually absorbs all the functions of the State, and makes laws to perpetuate its own rule. The consequences come at last to a focus, and fall with crushing force on the heads of the working people, who produce and make everything that is produced and made in any country.

If the present state of things as described by the Secretary of the Treasury be allowed to continue, nothing in our future is more certain than discontent among the masses of the people, embarrassment in the public treasury, loss of public credit, civil disturbance, disorganization—repudiation.—It is well that Congress and our financial managers shall not be suffered to lose sight of the word that expresses the end of bad measures.

* * * * * * * *

On looking back at the conditions of our existence before the rebellion, we are astonished at their simplicity, at their freedom from large cares—at what we might call the national unconcern and state of boyhood.

Hardly a serious pulse beat in our great body of contentment and self-sufficiency.

We had no commonwealth of interests governed by general principles of economy—not so much as an inventory of the public property.*

We had a narrow diplomacy, a baby army, and although our trading ships were in all seas,

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* "The Secretary is acquainted with no statistics which afford the means of a satisfactory estimate of the amount likely to be realized from the income tax." *Treasury Report* for 1861, p. 15. He might have added—nor from any other tax.

a baby navy. We had not even the laws necessary to keep the States united.*

We did not command the decent respect of our natural ally, England, nor of our historical ally, France, sufficiently to prevent those powers joining in the attempt of rebels to destroy the Republic.

As we had no membership in the family of nations, we came to experience when an emergency arose, that the laws of nations were made for all nations but our own.

A great occasion has changed this, and proved that we possess elements of unity and strength, adequate to the preservation of internal peace, popular independence, and equal standing among the powers of the earth. But these elements seem, as yet, only rudely thrown together. The task before us now, is, to organize them. The nation has heretofore been organizing itself in parts. It has now to organize those parts in one.

While the anomaly of slavery existed a complete Union was impossible. The rebellion only precipitated the conclusion of a political experiment that was destined to fail when it was launched, because it consisted of facts which were equally opposed to the normal theory of the Republic, and to the growing moralities of human nature.

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* "The Federal government cannot reduce the seceding States to obedience by conquest."—"Only an Imperial despotic government can subjugate thoroughly insurrectionary members of the State"—"This Federal Republican system of ours is the very one which is most unfitted for such a labor." *Advices of State Department to our Ministers abroad,* 1861.

Now, our grand economy is liberated from the chains that bound it to an impossibility, and nothing is wanting but study, disinterestedness and labor to establish upon it a Union of people cemented by justice, and by common popular rights.

In abstract principles, or in sentiments only, there is but little power to govern multitudes, and it is impossible to hold society together by them. The instrument of organization and of government is, labor and its consequences. These make up what is called *economy*. By this instrument, and by no other, can moral principles be embodied in real life—in the shape of order, law and progressive improvement. Thus we come to see the bearings of the public debt on society, through the connection that makes it give law to industry.

If the war has left a sad mark on the country, and especially in the hearts of relatives, it has also brought the necessity of greater duties, in the faithful performance of which we shall give to our posterity a higher public life, a more secure peace, and a broader influence in the world. There is hardly any thought more pleasing, and none can be more elevating to a nation, than that which sprung spontaneously in the minds of the masses of men in Europe while they stood watching the progress of our great strife—that it was a strife, not for conquest or to serve the ends of ambition, but for the release of labor from bondage, and therefore, the cause of the people of every country.

It is to the second and more difficult part of

this strife that the nation is now called—to the organization of its vast economy in one harmonious system of labor, governed by principles of justice, and working itself out in such a natural distribution of the material wealth of the country, as shall be in parallelism with its theory of the equal rights of the man, making his condition, whatever it may be, the result of choice and not the result of necessity imposed by law.

There is surely no pretension at the present day, in assuming that the general affairs of economy are reducible to some degree of scientific arrangement; for this is to say, only, that every thing has its reason. If in attempting to discover that reason we are obliged to speak with great freedom of measures, of laws, and of public administrators, it is in behalf of the people—in defence of the rights of all. When a wrong exists in the State injurious to the common welfare, it is not from those who complain that an apology is due, but from those who are the authors of the wrong, or who, having the power to correct it, still allow its continuance.

The great comprehensive wrong with which we have now to contend, is, plainly, the want of organization in our economy. All the difficulties of finance, all the embarrassments connected with the currency, all the distrust of the markets, all the oppression and suffering caused by high prices, and we may add, all the difficulties in our politics, will vanish before the advance of industrial organization. And nothing else will cause them to vanish. The source of content to society, the source of every social blessing, is in

labor. No sooner shall the majority of the intelligent class in any community give its decided countenance to industrial pursuits and to the organization that follows in their train, than mere fashion and imitation will do the rest. The current of difficulty will be set on the ebb, and from that moment the battle is won.

Government, through its all-powerful arm of finance, is, for the time, our chief agent in promoting organization. It has its eye and its hand everywhere. Assessors, collectors, detectives, are omnipresent. Discipline is imposed by the necessity of accounts.

But government is not so efficient a guardian—not so good a guide or manager as *commerce.*

Commerce is the natural trustee of all interests. It is the common wisdom. Only for the time, while political passions are still unsubdued, can government hold the reins. Nor can it hold them for a single instant without the aid of commerce.

Perhaps the general aim of this volume may be best described by saying that it is designed to show how little the government ought to mix itself with the affairs of the people; and that it ought never to do so but as a servant—not as a master. Its present office is to a great extent military, and from necessity that of predominance. But this is passing away under the direction of a Congress that has in it the popular wisdom, grandly expressed in the late elections.

As the initial step to the restoration of the natural rights of labor, first of which is, the right to live without distress—without being famished

on high prices, deficient and adulterated food—as the initial step in this direction, we show that full one-half of the excise tax now levied on the country ought to be stricken off.—At least, we show that every requirement of the public credit and honor may be met by a great reduction from the present scale of taxation.

It is our earnest hope that we shall have done something towards opening the paramount question of labor as it is affected by the debt—something that will turn serious thoughts to it, and favor further investigation.

THE ORGANIZATION OF THE DEBT.

THE latest official report of the Secretary of the Treasury to Congress bears the date of December 3, 1866.

It gives the sum total of our public debt on the 31st of October, 1866, at twenty-five hundred and fifty-one million, four hundred and twenty-four thousand, one hundred and twenty-one dollars and twenty cents.—$2,551,424,121.20.

The amount of the debt including Treasury notes and currency at that time was, however, twenty-six hundred and eighty-one million, seven hundred and fifty-one thousand, eighty-one dollars and eighty-two cents.—$2,681,751,-081.82.

The former amount is obtained by subtracting from the face of the debt, the balance of cash on hand at the time, which was $130,326,960.62. But this can hardly be considered an accurate representation, because the balance is subject to constant draft for the current expenses of the government, and full half of it will doubtless be so applied. Besides, it is known that there are claims of States for money advanced during the rebellion, and other accounts waiting only to be audited, to be incorporated as part of the debt; and the other half of the balance would most likely be consumed by them.

The proximately true amount of the debt on the 31st of October, properly stated is therefore, $2,681,751,081.82. The portion that consists of legal tender notes, with some remnants of matured loans on which interest has ceased, makes the amount actually subject to interest considerably less; but while gold carries a premium in currency, this is by no means a full offset. Moreover, the "legal tenders" are a transient feature in the debt, and it is with the permanent plan of it that we shall have to deal.

Amount of the Debt June 30, 1866.

The amount of audited debt at the end of the last fiscal year, June 30, 1866, was twenty-seven hundred and eighty-three million, four hundred and twenty-five thousand, eight hundred and seventy-nine dollars and twenty-one cents.—$2,783,425,879.21. For the reasons stated, the balance of cash on hand at the same time, ($132,887,549.11) is not subtracted from it.

As the last complete official synopsis of the debt bears the date of June 30, 1866, we adopt it as the base of our statements and reasonings on the subject, and copy it entire, as follows:

ACTS AUTHORIZING LOANS AND SYNOPSIS OF SAME.

Acts of July 21, 1841, and April 15, 1842:

Authorized a loan of $12,000,000, bearing interest at a rate not exceeding 6 per cent. per annum, and reimbursable, at the will of the Secretary, after six months' notice, or at any time after three years from January 1, 1842. The act of April 15, 1842, authorized the loan of an additional sum of $5,000,000 and made the amount obtained on the loan after the passage of this act reimbursable after six months' notice, or at any time not exceeding twenty years from January 1, 1843. This loan was made for the purpose of redeeming outstanding Treasury notes and to defray any of the public expenses.

Act of January 28, 1847:

Authorized the issue of $23,000,000 in Treasury notes, bearing interest at a rate not exceeding 6 per cent. per annum, with authority to borrow any portion of the amount and issue bonds therefor, bearing interest at a rate not exceeding 6 per cent., and redeemable after December 31, 1867. The 13th section authorized the funding of these notes into bonds of the same description. The act limited the amount to be borrowed or issued in Treasury notes and funded, as aforesaid, to $23,000,000, but authorized the funding of Treasury notes issued under former acts beyond that amount The excess of the $23,000,000 is made up of Treasury notes funded under the 14th section.

Act of March 31, 1848:

Authorized a loan of $16,000,000, bearing interest at a rate not exceeding 6 per cent. per annum, and reimbursable at any time after twenty years from July 1, 1848. Authority was given to the Secretary to purchase the stock at any time.

Act of September 9, 1850:

Authorized the issue of $10,000,000 in bonds, bearing 5 per cent. interest and redeemable at the end of fourteen years, to indemnify the State of Texas for her relinquishment of all claims upon the United States for liability of the debts of Texas, and for compensation for the surrender to the United States of her ships, forts, arsenals, custom-houses, &c., which became the property of the United States at the time of annexation

Old funded and unfunded debts:

Consisting of unclaimed dividends upon stocks issued before the year 1800 and those issued during the war of 1812.

Acts prior to 1857:

Different issues of Treasury notes..

Act of December 23, 1857:

Authorized an issue of $20,000,000 in Treasury notes, bearing interest at a rate not exceeding 6 per cent. per annum, and receivable in payment of all public dues, and to be redeemed after the expiration of one year from date of said notes.

Act of June 14, 1858:

Authorized a loan of $20,000,000, bearing interest at a rate not exceeding 5 per cent. per annum, and reimbursable at the option of the government at any time after the expiration of fifteen years from January 1, 1859.

Act of June 22, 1860:

Authorized a loan of $21,000,000, bearing interest at a rate not exceeding 6 per cent. per annum, and reimbursable within a period not beyond twenty years, and not less than ten years, for the redemption of outstanding Treasury notes, and for no other purpose.

TITLE.	LENGTH OF LOAN.	WHEN REDEEMABLE.	RATE OF INTEREST.	AMOUNT AUTHORIZED.	AMOUNT ISSUED.	AMOUNT OUTSTANDING.
Loan of 1842...	20 years	After Dec. 31, 1862.	6 per cent. pr.annum	$17,000,000	$8,000,000	$79,268 68
Loan of 1847...	20 years	After Dec. 31, 1867.	6 per cent. pr.annum	23,000,000	28,207,000	9,415,250 00
Loan of 1848...	20 years	After July 1, '68.	6 per cent pr.annum	16,000,000	16,000,000	8,908,341 80
Texas indemnity.	15 years	After Dec. 31, 1864.	5 per cent. pr.annum	10,000,000	5,000,000	559,000 00
Old funded debt	Demand.	On demand.....	3 and 6 pr. cent.	....	....	114,115 48
Treasury notes	....	On demand.....	1 m. to 6 per cent.	....	....	104,511 64
Treasury notes.	1 year..	1 year after date.	5 to 5½ pr. cent.	20,000,000	....	8,600 00
Loan of 1858...	15 years	Dec. 31, 1873....	5 per cent. pr.annum	20,000,000	20,000,000	20,000,000 00
Loan of 1860...	10 years	After Dec. 31, 1870.	5 per cent. pr.annum	21,000,000	7,022,000	7,022,000 00

ACT AUTHORIZING LOANS AND SYNOPSIS OF SAME.

Act of December 17, 1860:
Authorized an issue of $10,000,000 in Treasury notes, to be redeemed after the expiration of one year from the date of issue, and bearing such a rate of interest as may be offered by the lowest bidders. Authority was given to issue these notes in payment of warrants in favor of public creditors at their par value, bearing 6 per cent. interest per annum.

Act of February 8, 1861 .
Authorized a loan of $25,000,000, bearing interest at a rate not exceeding 6 per cent. per annum, and reimbursable within a period not beyond twenty years, nor less than ten years. This loan was made for the payment of the current expenses, and was to be awarded to the most favorable bidders.

Act of March 2, 1861 :
Authorized a loan of $10,000,000, bearing interest at a rate not exceeding 6 per cent. per annum, and reimbursable after the expiration of ten years from July 1, 1861. In case proposals for the loan were not acceptable, authority was given to issue the whole amount in Treasury notes, bearing interest at a rate not exceeding 6 per cent. per annum. Authority was also given to substitute Treasury notes for the whole or any part of the loans for which the Secretary was by law authorized to contract and issue bonds at the time of the passage of this act; and such Treasury notes were to be made receivable in payment of all public dues, and redeemable at any time within two years from March 2, 1861.

Act of March 2, 1861 :
Authorized an issue, should the Secretary of the Treasury deem it expedient, of $2,800,000, in coupon bonds, bearing interest at the rate of 6 per cent. per annum, and redeemable in twenty years, for the payment of expenses incurred by the Territories of Washington and Oregon in the suppression of Indian hostilities during the years 1855 and 1856.

Acts of July 17, 1861, and August 5, 1861 :
Authorized a loan of $250,000,000, for which could be issued bonds bearing interest at a rate not exceeding 7 per cent. per annum, irredeemable for twenty years, and after that redeemable at the pleasure of the United States; Treasury notes bearing interest at the rate of 7.30 per cent. per annum, payable three years after date, and United States notes without interest, payable on demand, to the extent of $50,000,000 (increased by act of February 12, 1862, to $60,000,000), the bonds and Treasury notes to be issued in such proportions of each as the Secretary may deem advisable. The supplementary act of August 5, 1861, authorized an issue of bonds bearing 6 per cent. interest per annum, and payable at the pleasure of the United States after twenty years from date, which may be issued in exchange for 7.30 Treasury notes; but no such bonds to be issued for a less sum than $500; and the whole amount of such bonds not to exceed the whole amount of 7.30 Treasury notes issued.

Act of February 25, 1862 :
Authorized the issue of $500,000,000 in 6 per cent. bonds, redeemable after five years and payable twenty years from date, which may be exchanged for United States notes. Also on

March 3, 1864 :
Authorized the issue of not over $11,000,000 additional of similar bonds, to meet subscriptions already made and paid for.

June 30, 1864 ; January 28, 1865 :
On hand unsold in the United States or Europe..............................

TITLE.	LENGTH OF LOAN.	WHEN REDEEMABLE.	RATE OF INTEREST.	AMOUNT AUTHORIZED.	AMOUNT ISSUED.	AMOUNT OUTSTANDING.
Treasury notes.	1 year..	1 year after date,	6 and 12 per cent. pr.annum	$10,000,000	$10,000,000	$600 00
Loan of Feb. 8, 1861.	20 years	After June 1, '81,	6 per cent pr.annum	25,000,000	18,415,000	18,415,000 00
Treasury notes.	2 years.	2 years after date.	....	22,468,100	22,468,100	3,800 00
	60 days.	60 days after date.	6 per cent pr.annum	12,896,350	12,896,350	
Oregon war....	20 years	After July 1, '81,	6 per cent. pr.annum	2,800,000	1,090,850	1,016,000 00
20-year sixes.	20 years	After June 30,'81	6 per cent. pr.annum	....	50,000,000	50,000,000 00
7.30 notes.... (two issues.)	3 yrs.	After Aug. 18,'64 After Sept. 30,'64	7.30 p. c. pr. an.	....	139,999,750	139,301,700 00
Demand notes.	Payable on demand.	Demand....	None......	....	60,000,000	272,162 00
20-year sixes.	20 years	After June 30, '81	6 per cent. pr.annum	Exchangeable for 7.30 Treasury notes.	....	50,550 00
Five-twenties	5 or 20 years.	After April 30,'67	6 per cent.	515,000,000	514,780,500	514,780,500 00
....	....	....	....	....	....	....

ACTS AUTHORIZING LOANS AND SYNOPSIS OF SAME.

Act of February 25, 1862 :
Authorized the issue of $150,000,000 in legal-tender U. S. notes, $50,000,000 of which to be in lieu of demand notes issued under act of July 17, 1861.

Act of July 11, 1862 :
Authorized an additional issue of $150,000,000 legal-tender notes, $35,000,000 of which might be in denominations less than five dollars ; $50,000,000 of this issue to be reserved to pay temporary loans promptly in case of emergency.

Resolution of Congress, January 17, 1863 :
Authorized the issue of $100,000,000 in United States notes, for the immediate payment of the army and navy, such notes to be a part of the amount provided for in any bill that may hereafter be passed by this Congress. (The amount in this resolution is included in act of March 3, 1863.)

Act of March 3, 1863 :
A further issue of $150,000,000 in United States notes, for the purpose of converting the Treasury notes which may be issued under this act, and for no other purpose. And a further issue, if necessary, for the payment of the army and navy and other creditors of the Government, of $150,000,000 in United States notes, which amount includes the $100,000,000 authorized by the joint resolution of Congress, January 17, 1863.

Act of April 12, 1866 :
Provided, That of United States notes not more than ten millions of dollars may be retired and cancelled within six months from the passage of this act, and thereafter not more than four millions of dollars in any one month : And provided, further, That the act to which this is an amendment shall continue in full force in all its provisions except as modified by this act.

Act of February 25, 1862 :
Authorized a temporary loan of $25,000,000 in United States notes, for not less than thirty days, payable after ten days' notice, at 5 per cent. interest per annum. (This was increased to $100,000,000 by the following acts.)

March 17, 1862 :
Authorized an increase of temporary loans of $25,000,000, bearing interest at a rate not exceeding 5 per cent. per annum.

July 11, 1862 :
Authorized a further increase of temporary loans of $50,000,000, making the whole amount authorized $100,000,000.

Act of June 30, 1864 :
Authorized the increase of temporary loans to not exceeding $150,000,000, at a rate not exceeding 6 per cent.

Act of March 3, 1863 :
Authorized a loan of $300,000,000 for this, and $600,000,000 for the next fiscal year, for which could be issued bonds running not less than ten nor more than forty years, principal and interest payable in coin, bearing interest at a rate not exceeding 6 per cent. per annum, payable in bonds not exceeding $100 annually, and on all others semi-annually, the whole amount of bonds, Treasury notes, and United States notes issued under this act not to exceed the sum of $900,000,000.

Act of June 30, 1864 :
So much of this act as limits the loan to the current fiscal year is repealed by act of June 30, 1864, which also repeals the authority to borrow money conferred by section 1, except so far as it may affect $75,000,000 of bonds already advertised.

TITLE.	LENGTH OF LOAN.	WHEN REDEEMABLE.	RATE OF INTEREST.	AMOUNT AUTHORIZED.	AMOUNT ISSUED.	AMOUNT OUTSTANDING.
United States notes, new issue.	......	....	None	$450,000,000	....	$400,619,206 00
Temp'y loan..	Not less than 30 days.	After 10 days' notice.	4, 5, and 6 per cent.	150,000,000	....	120,176,196 65
Loan of 1863..	....	After June 30, 1881.	6 per cent.	75,000,000	75,000,000	75,000,000 00

ACTS AUTHORIZING LOANS AND SYNOPSIS OF SAME.

Act of March 3, 1863 :

And Treasury notes to the amount of $400,000,000, not exceeding three years to run, with interest at not over 6 per cent. per annum, principal and interest payable in lawful money, which may be made a legal-tender for their face value, excluding interest, or convertible into United States notes. Secretary may receive gold on deposit, and issue certificates therefor, in sums not less than twenty dollars.

Act of March 3, 1864 :

Authorizes the issue of bonds not exceeding $200,000,000 bearing date March 1, 1864, or any subsequent period, redeemable at the pleasure of the Government after any period not less than five years, and payable at any period not more than forty years from date, in coin, bearing interest not exceeding 6 per cent. yearly, payable on bonds not over one hundred dollars annually, and on all other bonds semi-annually, in coin.

Act of March 1, 1862 :

Authorized an issue of certificates of indebtedness, payable one year from date, in settlement of audited claims against the Government. Interest 6 per cent. per annum, payable in gold ; and by

Act of March 3, 1863 :

Payable in lawful currency on those issued after that date. Amount of issue not specified.

Act of July 17, 1862 :

Authorized an issue of notes of the fractional parts of one dollar, receivable in payment of all dues, except customs, less than five dollars, and exchangeable for United States notes in sums of not less than five dollars. Amount of issue not specified.

Act of March 3, 1863 :

Authorized an issue not exceeding $50,000,000 in fractional currency, (in lieu of postage or other stamps), exchangeable for United States notes in sums not less than three dollars, and receivable for any dues to the United States less than five dollars, except duties on imports. The whole amount issued, including postage and other stamps issued as currency, not to exceed $50,000,000. Authority was given to prepare it in the Treasury Department, under the supervision of the Secretary.

Act of June 30, 1864 :

Authorized issue in lieu of the issue under acts of July 17, 1862, and March 3, 1863, the whole amount outstanding under all these acts not to exceed $50,000,000.

Act of June 30, 1864 :

Authorized the issue of $400,000,000 of bonds redeemable at the pleasure of the Government after any period not less than five nor more than thirty years, or, if deemed expedient, made payable at any period not more than forty years from date. And said bonds shall bear an annual interest not exceeding 6 per cent., payable semi-annually in coin. And the Secretary of the Treasury may dispose of such bonds, or any part thereof, and of any bonds commonly known as five-twenties remaining unsold, on such terms as he may deem most advisable, for lawful money of the United States, or, at his discretion, for Treasury notes, certificates of indebtedness, or certificates of deposit, issued under any act of Congress.

TITLE.	LENGTH OF LOAN.	WHEN REDEEMABLE.	RATE OF INTEREST.	AMOUNT AUTHORIZED.	AMOUNT ISSUED.	AMOUNT OUTSTANDING.
Treasury notes.	2 years..	2 years after date	5 per cent.	....	$211,000,000	$3,454,230 00
	1 year..	1 year after date.	5 per cent.	$400,000,000		
Gold certificates	....	On demand......	....	Not specified	....	10,713,180 00
Ten-forties...	10 or 40 years.	After February 28, 1874.	5 per cent.	200,000,000	172,770,100	171,219,100 00
Five-twenties	5 or 20 years.	After October 31 1869.	6 per cent.	....	....	3,882,500 00
Certificates of indebtedness.	1 year..	1 year after date.	6 per cent.	Not specified	....	26,391,000 00
Postal currency.	....	....	....	Not specified	....	7,030,700 78
Fractional currency.	....	....	....	50,000,000	....	20,040,176 18
Five-twenties..	5 or 20 years.	After October 31, 1869.	6 per cent.	....	....	100,000,000 00

ACTS AUTHORIZING LOANS AND SYNOPSIS OF SAME.

Acts of March 3, 1863, and June 30, 1864 :

Authorize an issue of Treasury notes, not exceeding three years to run, interest at not over 6 per cent per annum, principal and interest payable in lawful money.

Also authorize the issue of and in lieu of an equal amount of bonds authorized by the first section, and as a part of said loan, not exceeding $200,000,000 in Treasury notes of any denomination not less than $10, payable at any time not exceeding three years from date; or, if thought more expedient, redeemable at any time after three years from date, and bearing interest not exceeding the rate of 7 3-10 per cent., payable in lawful money at maturity, or, at the discretion of the Secretary, semi-annually ; and such of them as shall be made payable, principal and interest, at maturity, shall be a legal-tender to the same extent as United States notes for their face value, excluding interest, and may be paid to any creditor of the United States, at their face value, excluding interest, or to any creditor willing to receive them at par, including interest ; and any Treasury notes issued under the authority of this act may be made convertible, at the discretion of the Secretary of the Treasury, into any bonds issued under the authority of this act ; and the Secretary of the Treasury may redeem and cause to be cancelled and destroyed any Treasury notes or United States notes heretofore issued under authority of previous acts of Congress, and substitute in lieu thereof an equal amount of Treasury notes such as are authorized by this act, or of other United States notes; nor shall any Treasury note bearing interest issued under this act be a legal tender in payment or redemption of any notes issued by any bank, banking association, or banker, calculated or intended to circulate as money.

Act of January 28, 1865 :

Whole amount may be issued in bonds or Treasury notes, at the discretion of the Secretary.

Act of March 3, 1865 :

Authorized an issue of $600,000,000 in bonds or Treasury notes ; bonds may be made payable at any period not more than forty years from the date of issue, or may be made redeemable, at the pleasure of the Government, at or after any period not less than five years nor more than forty years from date, or may be made redeemable and payable as aforesaid, as may be expressed upon their face ; and so much thereof as may be issued in Treasury notes may be made convertible into any bonds authorized by this act, and be of such denominations, not less than fifty dollars, and bear such dates, and be made redeemable or payable at such periods, as the Secretary of the Treasury may deem expedient. The interest on the bonds payable semi-annually, on Treasury notes semi-annually, or annually, or at maturity thereof, and the principal or interest, or both, be made payable in coin or other lawful money ; if in coin, not to exceed 6 per cent. per annum ; when not payable in coin, not to exceed 7 3-10 per cent. per annum. Rate and character to be expressed on bonds or Treasury notes.

Act of April 12, 1866, amendment to act of March 3, 1865 :

Authorizes the Secretary of the Treasury, at his discretion, to receive any Treasury notes or other obligations isssued under any act of Congress, whether bearing interest or not, in exchange for any description of bonds authorized by the act to which this is an amendment ; and also to dispose of any description of bonds authorized by said act, either in United States or elsewhere, to such an amount, in such manner, and at such rates, as he may think advisable, for lawful money of the United States, or any Treasury notes, certificates of indebtedness, or for certificates of deposit, or other representatives of value, which have been or may be issued under any act of Congress, the proceeds thereof to be used only for retiring Treasury notes or other obligations issued under any act of Congress ; but nothing herein contained shall be construed to authorize any increase of the public debt.

Acts of July 1, 1862, and July 2, 1864 .

Bonds issued to the Union Pacific Railroad Company in accordance with these acts.

TITLE.	LENGTH OF LOAN.	WHEN REDEEMABLE.	RATE OF INTEREST.	AMOUNT AUTHORIZED.	AMOUNT ISSUED.	AMOUNT OUTSTANDING.
Treas'y notes	3 years.	3 yrs. after date.	6 per cent. comp. interest.	....	$17,250,000	
Treas'y notes	3 years.	3 yrs. after date.	6 per cent. comp. interest.	Subs'tute redeemed 5 p. cent. notes.	177,045,770	$159,012,140 00
Treas'y notes	3 years.	3 yrs. after date.	6 per cent. comp. interest.	....	22,728,390	
....	....	....	....	$400,000,000		
7.30 Treasury notes.	3 years.	3 years after Aug. 15, 1864.	7.30 per cent.	....	234,400,000	
						806,251,550 00
7 3-10 Treas'y notes, three issues.	3 yrs.	After Aug. 14, '67 After June 14, '68 After July 14, '68	7 3.10 p. cent.	600,000,000	....	
Five-twenties	5 or 20 years.	After October 31, 1870.	6 per cent.	....	....	103,542,500 00
Union Pacific R. R. Co. bonds.	30 years	After Jan. 15, 1895.	6 per cent.	....	....	6,042,000 00
						$2,783,425,879 21

The following is a more compact show of the same, separating the old debt from the new, and omitting the abstract of the laws:

Amount of debt before the rebellion.

OLD DEBT CONTRACTED BEFORE THE REBELLION.

(The letter *a* prefixed to the date of maturity means *after*. Amounts past due, or against which no rate is marked, are not subject to interest.)

TITLE.	INTEREST.	WHEN DUE.	AMOUNT.
Loan of 1842		Past due	$79,268 68
Loan of 1847	6	*a* Dec. 31, 1867,	9,415,250 00
Loan of 1848	6	*a* July 1, 1868	8,908,341 80
Texas Indemnity		Past due	559,000 00
Old funded debt		do	114,115 48
Treasury Notes		do	104,511 64
Treasury Notes		do	8,600 00
Loan of 1858	5	Dec. 31, 1873	20,000,000 00
Loan of 1860	5	*a* Dec. 31, 1870,	7,022,000 00
Treasury Notes		Past due	600 00
Loan of 1861	6	*a* June 1, 1881,	18,415,000 00
Treasury Notes		Past due	3,800 00
Oregon War	6	*a* July 1, 1881,	1,016,000 00
Old debt			$65,646,487 60

NEW DEBT.

Compact statement of the new debt.

TITLE.	INTEREST.	WHEN DUE.	AMOUNT.
Twenty-year Sixes,	6	*a* June 30, 1881,	$50,050,550 00
Seven-thirty Notes,	7.30	*a* Aug. 18, 1864	139,301,700 00
do	do	*a* Oct. 1, 1864	
Demand Notes			272,162 00
Five-twenties	6	*a* April 30, 1867,	514,780,500 00
U. S. Notes			400,619,206 00
Temporary Loan	4, 5, and 6,	*a* 10 days' notice	120,176,196 65
Loan of 1863	6	*a* June 30, 1881,	75,000,000 00

TITLE.	INTEREST.	WHEN DUE.	AMOUNT.
Treasury Notes	5	Past due	$3,454,230 00
Gold Certificates		On demand	10,713,180 00
Ten-forties	5	*a* Feb. 28, 1874,	171,219,100 00
Five-twenties	6	*a* Oct. 31, 1869,	3,882.500 00
Certificates of Indebtedness	6	1 year after date,	26,391,000 00
Postal and fractional currency			27,070,876 96
Five-twenties	6	*a* Oct. 31, 1869,	100,000,000 00
Treasury Notes	6 per ct. com. int.	3 yrs. after date,	159,012,140 00
Seven-thirty Notes,	7.30	*a* Aug.14,1867 *a* Jun.14,1868 *a* Jul.14, 1868	806,251,550 00
Five-twenties	6	*a* Oct. 31, 1870,	103,542,500 00
Union Pacific R. R. Co. bonds	6	*a* Jan. 15, 1895,	6,042,000 00
New debt			$2,717,779,391 61

Amount of old debt before the war	$65,646,487 60
New Debt	2,717,779,391 61
Total June 30, 1866	$2,783,425,879 21

A public credit to command confidence, should be simple in its plan, easily understood, of one kind, and without contingencies.

Contingencies of the debt.

The foregoing list is constructed on the opposite theory. It contains nineteen different periods of maturity, and six different rates of interest. Each rate of interest has contingencies within itself which make the determination of relative value impossible. For example, in the loans bearing six per cent. there are the following bonds:

Variety of the six per cent. bonds.

Five-twenties, payable in the option of the Treasury after five years, and absolutely payable in twenty years.

Five-twenties, payable in the option of the Treasury after five years, or in option at the end of thirty years, and absolutely within forty years.

Loan of 1847, payable in option after December 31, 1867.

Loan of 1848, payable in option after July 1. 1868.

Loan of 1861, payable in option after ten years, and absolutely in twenty years.

Oregon War Bonds, payable in twenty years.

Twenty-year sixes, payable in option after twenty years.

Temporary loan, payable on ten days' notice.

Five-twenties, payable in option after five and absolutely in forty years.

Certificates of indebtedness, payable in one year from date.

Compound interest notes, payable three years after date.

Union Pacific Railroad bonds, payable after thirty years.

Here are no fewer than twelve different kinds of bonds and notes carrying six per cent. interest. Most of the issues include both registered and coupon bonds. In some there are bonds as low as fifty dollars; of others there are none lower than five hundred dollars, and of others none under one thousand. They are issued under twelve different Acts of Congress.

Of the five per cent. loans there are five dif-

ferent issues each with an option appended, and other contingencies of conversion, renewal, &c.

Of the seven-thirty notes there are five or six different issues, some convertible in the option of the government, some in the option of the holder, into various bonds; and some issues are exchangeable for other issues.

Contingencies of the Seven-thirties.

An Act of March 3, 1865, authorized the Secretary of the Treasury to issue any part of six hundred million of Treasury notes that he might deem expedient, with the interest payable annually, semi-annually or at maturity, either in coin at six per cent. interest, or in other "lawful money" at seven and three-tenths per cent. and to make the same convertible into bonds redeemable in the option of the Government, after five, and within forty years. Here are nine contingencies appended to one issue of Treasury notes.

It is not necessary to follow out this specification of the peculiarities of each loan, to prove that the general plan of our national securities is complicated beyond any ordinary powers of analysis to unravel. It is impossible with such various and indefinite terms to ascertain their relative values with precision. The most that can be done towards this, is to discard entirely those which least affect the price of the bond, and to combine the remaining peculiarities in as few general terms as possible.

Classified by the rates of interest only, the debt takes shape as follows:

The debt classified by the rates of interest.

Seven and three-tenths Treasury notes	$945,553,250 00
Six per cent. loans......................	917,443,641 80
Six per cent. compound interest notes.....	159,012,140 00
Five per cent. loans......................	198,241,100 00
Mixed, four, five and six per cent. loans...	120,176,196 65
Total amount paying interest........	$2,340,426,328 45
Amount past due, on which interest has ceased................................	4,324,125 80
Treasury notes and fractional currency circulating as money....................	427,962,244 96
Gold certificates.........................	10,713,180 00
Total of the debt..................	$2,783,425,879 21

But this classification affords no help to the capitalist who is in search of an investment. In addition to the twelve varieties contained in the Six per cent. loans, and the contingencies of time and option, the interest on some of the loans is payable in coin, and on some in currency. Some are convertible, others inconvertible. A material difference of income would be the result of choosing one kind in preference to another. The loans due January 1 and July 1, 1868, are redeemable in coin at those dates, and partake of the present premium on gold. They are not purchasable below 128 or 130, while the Five-twenties and other six per cent. loans may be bought at 106.

Reduced analysis of the debt.

In the following classification, we omit altogether, the Temporary loans, ($120,176,196.65) the Certificates of Indebtedness, ($26,391,000) and the Compound Interest notes, ($159,012,140). These are not in the general market, and no capitalist takes them up for investment.

The Loans of 1847, due Jan. 1, 1868, ($9,415,250) and of 1848, due July 1, 1868, ($8,908,341.80) also may be left out of the current list, as they are dealt in to a very limited extent, and only by speculators in gold.

The loan of 1860, due Jan. 1, 1871, ($7,022,000) and that of 1858, due Jan. 1, 1874, ($20,000,000) can hardly be considered as in the general market, for the reason that they are near enough to maturity to make them partake of the premium on gold. They are not commonly dealt in, and are avoided by careful investors. Holders of them will be readier to sell than others to buy.

In this way we take out of the current list seven of the twenty different loans embraced in the official statement, viz.:

Temporary loans	$120,176,196 65	Loans not in the market.
Certificates of Indebtedness	26,391,000 00	
Compound Interest notes	159,012,140 00	
Loan of 1847	9,415,250 00	
Loan of 1848	8,908,341 80	
Loan of 1860	7,022,000 00	
Loan of 1858	20,000,000 00	
	$350,924,928 45	

None of these loans exert an appreciable influence on the market. They are held, either for conversion, or redemption, and mostly by banks. The prudent capitalist finds a more attractive and less speculative investment in the active and living list, which we are now enabled to reduce to four kinds only, viz.: The Ten-forties, the Sixes of 1881, the Five-twenties, and the Seven-thirties.

The current list of loans.

THE COMPLETE CURRENT LIST.

SUMMARY.

Ten-forties	$171,219,100
Sixes of 1881	150,523,550
Five-twenties	722,205,500
Seven-thirties	945,553,250
	$1,989,501,400

The separate loans composing the summary are as follows:

AT FIVE PER CENT.

Interest in Coin.

Ten-forties, payable	after 1874	$171,219,100

AT SIX PER CENT.

Interest in Coin.

Loan of February 8, 1861,	after 1881	18,415,000
Oregon War,	" 1881	1,016,000
Twenty-year Sixes,	" 1881	50,050,550
Loan of 1863,	" 1881	75,000,000
Union Pacific R. R. Co.,	" 1895	6,042,000
Five-twenties,	" 1867	514,780,500
Five-twenties,	" 1869	3,882,500
Five-twenties,	" 1869	100,000,000
Five-twenties,	" 1870	103,542,500

AT SEVEN AND THREE-TENTHS PER CENT.

Interest in Currency.

Seven-thirties,	after 1864	139,301,700
Seven-thirties,	" 1867 " 1868	806,251,550
		$1,989,501,400

For all practical purposes, the capitalist will find this reduction of the official list a sufficient guide to investment. The shades of variation in price from day to day, are caused by the changes in the money market which equally affect all, or by some accident in personal affairs not connected with the value of the bonds. These accidents are frequent and sometimes rule the market for a few hours. The failure of a large dealer gives rise to trepidation; rumors are set afloat for the purpose of favoring particular movements, and are occasionally successful; and especially rumors from Washington, of what the Secretary of the Treasury is doing or about to do, or about to contemplate doing.

Peculiarities of the Registered Bond.

The difference between a registered and a coupon bond, does not ordinarily affect the market price of it beyond a slight shade, and gives no difference of income; but it is far from being unimportant. The personal circumstances of a man often make it desirable to hold one or the other, and either becomes more valuable to him as it is more convenient to avail himself of the interest, or as it is safer against accidental or fraudulent dispossession. A registered bond is so called because it is registered on the books of the Treasury department in the name of the owner. It cannot be transferred to another person without the consent and signature of the owner and the surrender of his certificate, which is cancelled before a new certificate is issued to the new holder. In this respect it is like a deed of real estate, being on record, and the record being a legal evi-

dence of ownership, even if the deed be lost, stolen, or destroyed. If a registered bond be stolen, the thief can make no use of it unless he forge the name of the owner on the books of the Treasury department, and obtain a new certificate in another name. The chances of detection are too many to invite the experiment; for as soon as the owner discovers his loss, he advises the department, and any one presenting the certificate after that, either for transfer or to collect the interest would be immediately arrested. But even if the thief should succeed so far as to get a new certificate, he could not offer it for sale without danger of detection; for people do not ordinarily buy registered certificates of stock from strangers, any sooner than they would buy a deed of real estate under similar circumstances. In short, a registered bond like a deed has a title which all prudent men will examine before buying. Any one who should purchase a registered bond from a stranger without enquiry as to his lawful possession of it, would naturally incur the suspicion of being not "an innocent holder," if it should subsequently appear to have been stolen from the rightful owner; and if it changed hands below the current market price, both seller and buyer might be suspected of complicity with fraud. Finally, if the registered bond be lost or destroyed, the Treasury department will issue a duplicate, after public advertisement for a certain time, of the application for it. These peculiarities make the registered bond a much more desirable investment than the coupon bond, where the intention is to hold it for a long time.

Peculiarities of the coupon bond.

The coupon bond takes its name from the French word *couper*, to cut, because the certificates of interest are printed on the same sheet and are cut off as they become due. These certificates are called *coupons;* and they are salable at any time, whether before or past due. If the holder wants to anticipate his interest, he can cut off the coupons and sell them at a small discount, which is frequently a great convenience. But they might as easily be cut off and negotiated by other people, with little or no fear of detection; and the bond itself, being legally transferable by simple delivery, may be stolen and sold with impunity. The title is in the possession of it, not in any record. Being once sold, the thief is safe, and it is irreclaimable by the rightful owner. It is therefore a very hazardous experiment to keep coupon bonds on hand, unless they are in vaults or chests which are proof against burglars. Even then for long investments or in very large sums, it cannot be considered perfectly safe. The most extensive robberies have been achieved in spite of the best custody. Vaults and chests are open at intervals, and are generally accessible by more than one person. The trustees themselves of funds and of institutions sometimes prove dishonest, and none are free from moments of unwatchfulness. To sum up the whole case of coupon bonds, they can be safe only where bank bills are safe. They are issued by express law and agreement that they shall be transferable by delivery and not by record of assignment.

Its advantages.

The chief advantages of coupon bonds are, that

they answer for temporary investment, and that the interest upon them can be more easily collected than that of the registered bonds; also that the interest may be anticipated in case of need, merely by separating the coupon and selling it. The main purpose sought, or expected to be answered by this kind of bond, was, perhaps, to assist the public credit by offering a security that is negotiable with as little trouble as possible, possessing at the same time the attraction of a daily accumulation of interest, combined with perfect safety in itself. It would be sure to absorb all the unemployed funds of commerce which are not wanted immediately, but are held in expectancy, and which can be resumed on the instant they are called for, by the sale of the bonds. The object so far is obtained, at the sacrifice, however, of that complete safety which a register secures, and which makes one of the chief terms of the best form of credit.

Coupon bonds convertible into Registered bonds.

By Sec. 7 of the Act of June 30, 1864, Coupon bonds are made convertible into Registered bonds in the option of the holder. This is an effectual bar to any difference of price between them, excepting such as might pay for the delay and trouble of conversion, or from an accidental scarcity of one kind or the other.

There can be no certain relative value assumed between securities of which the interest is payable in gold, and those on which it is payable in currency. This fact puts the Seven-thirties in a class by themselves.

But between the five and six per cent. bonds

and between the different loans embraced by the latter, on all of which the interest is payable in coin, there is a certain relation. For example, if a five per cent. bond for $1,000 be salable at the par of $1,000, a six per cent. bond of the same amount would command $1,200. Or if a six per cent. bond for $1,000 be salable at par, a five per cent. bond would bring only $833.33.

Bonds of different rates of interest reduced to equivalents.

The commercial practice of investment is to calculate the principal from the interest; whence, it is a very simple process to reduce to equivalents the capitals of stocks which yield different rates of income. The rule is to multiply the principal by one rate and divide the product by the other. For example, it is required to know what the relative value of a five per cent. bond of $1,000 is to a six per cent. bond of the same amount:

The principal is.	$1,000.
Multiply by the interest for one year,	60
Divide by the interest for one year of the five per cent. bond,	5|0) 6,000|0
	$1,200.

That is to say, it requires $1,200 at five per cent. to yield as much as $1,000 at six per cent.

The difference of interest is reflected in the price of the principal.

Relative value of five and six per cent. bonds.

To reduce a six per cent. bond of $1,000 to its equivalent in the five per cent. rate, we multiply the principal by the interest of the five per cent. bond ($50) and divide the product by that of the six per cent. and the result is $833.33.

That is, the capital of $833.33 at six per cent. is equal to a capital of $1,000 at five per cent.

This is the general determining rule of prices in the stock market, aside from the mere gaming combinations by which certain descriptions of stock are forced up or down, without any regard whatever to value or income.

One might therefore order a purchase indifferently of any one of the funded loans through an honest agent, with a pretty confident assurance that it would be as profitable for income as any other, so far as the rate of interest only is concerned.

Uncertain action of the Treasury Department. But there are contingencies of an uncertain kind in all the loans, especially in those of which the period of maturity is near. In particular, there is the contingency of the action of the Treasury department with respect to the large amount of Five-twenties which mature on the first of May, 1867 ($514,780,500). At that date, these bonds lose their status as a part of the funded debt, and rest in the discretion of the government, which may or not be the discretion of the Secretary of the Treasury. The weight of their mass is perhaps the best security that the terms of the loan will remain essentially unchanged; for to attempt any material alteration of those terms would act most injuriously on the market and thence on the whole body of the debt, involving the public credit. The same remark applies to the remaining part of the Five-twenties ($207,425,000).

Analysis continued. The part of the debt farthest removed from contingencies, and in fact the only portion of the

whole mass, that has any feature of permanence in its organization, consists of the Ten-forties, the Sixes of 1881, and the bonds issued to the Pacific Railroad Company, amounting in all to $321,742,650. And this, like the Five-twenties, is subject to the contingency of fluctuation in the price of gold, through the interest.

The general result of this analysis is as follows:

Subject to conversion in 1867	$514,780,500 00
" " 1869 and 1870.....	207,425,000 00
Seven-thirties, past due, convertible........	139,301,700 00
" subject to conversion in 1867 and 1868..............................	806,251,550 00
Temporary loans, Certificates of Indebtedness, and Comp. Int. notes snbjeet to conversion,	305,579,336 65
Treasury notes and Fractional currency in circulation to be funded..................	431,144,312 96
Transient forms of the debt................	$2,404,482,399 61
Funded portion "	321,742,650 00
	$2,726,225,049 61
Old loans and gold certificates.............	57,200,829 60
Total of debt, June 30, 1866...........	$2,783,425,879 21

Eight-ninths of the debt not permanently funded.

Such is the general aspect of our public debt. The one-ninth part of it, only, is above the contingency of being refunded within an average of two years from the present time. Eight-ninths of it consist of transient forms issued under laws made up to a great extent of incomprehensible verbiage, giving unlimited discretion over the mass to one man, and expressing in the aggre-

gate nearly one hundred contingencies of duration, option, conversion, extension, renewal, and so forth. The maturity of the different loans is arranged, each without reference to any other, and so falling together that it will be impossible to pay them when promised. It has been openly avowed as the intention of the Treasury to refund them as they expire, at a lower rate of interest; by this recourse, making the credit worth one-sixth less to the holders than it is at the present time—an expedient of doubtful morality, and partaking in its nature of the air of repudiation.

Refunding at lower rates. If the whole debt of twenty-seven hundred millions should be refunded at five per cent., it would be a loss to the holders of twenty-seven millions of yearly income, which they were not led to expect when the debt was contracted. The reduction of the rate of interest below the average rates of commerce on so large a mass of investment is a proposition, to say the least, of such a serious character that it ought not to be put forth in the official reports of the Treasury Department, when circumstances do not require it, and indefinitely in advance of the period when the consideration of it may possibly be justified by the general state of affairs. It can serve no purpose, at present, but to put another term of speculation in the power of stock-dealers to rack and unsettle the public credit.

The debt not organized. *Organization* is not the word to apply to a mass of engagements promiscuously thrown together without any leading idea of arrangement, order, and system. The popular judgment has already

been pronounced in these premises, and is continually repeated on every occasion: that our public debt is in such a state of confusion as to be entirely out of reach of the popular understanding, and correspondingly out of the popular confidence. The different parts, which ought to harmonize and support the whole, rival and clash against each other. Every contingency is turned into a trick of speculation. Rates, maturities and liabilities are mixed together at every point, and it is not in the ability, if it were the interest, of dealers to explain them.

Facilities for brokers.

The governing precept of the stock business, is *change.* If the capitalist who has spare funds could come into Wall street, invest them intelligently in the national securities and go away satisfied, with no doubts to trouble his mind, transactions would have a decent permanence, and the national credit would soon be lifted above the plane of gambling and fraud. It would cease to be injured by the "cornerings" of cliques, the fluctuations of finance, and the perpetuity of rumors. But that is not the interest of the professional dealer. On the contrary, it is his interest to send every man away with doubts that will bring him back to sell what he has just bought. In this manner he reaps commission after commission from the same customer, being always ready with new chances to compensate for losses by the old, and careful, if he has the best wisdom of his profession, that these shall be varied by profits to invite his frequent return. If the main purpose of bringing our public credit into use

had been to increase these facilities of the stock-dealer, and to encourage the practice of buying to-day to sell to-morrow, it could not have been better answered.

It is not intended by these observations to throw unmeasured censure on those who have been the chief agents in giving the public debt its present shape. They had a difficult task in hand for which they were totally unprepared, either by acquaintance with the practical affairs of finance, or by knowledge of the experience of other nations who had trod the same path. They were pushed headlong by the shocks of revolution, and some disorder was inevitable. Their greatest fault has been in listening to politicians rather than to men of business. From the outset they blundered into the most palpable and childish errors; and since that they have been tripping over their own blunders, until the commercial affairs of the country are brought to a most critical and deplorable state.*

The disorganization of the debt.

The public debt contains the terms that must govern our finance for a long time to come, and, through finance, all the labors of the people. The official statement of it, which ought to be clear, enlightening, and convincing, is obscure, confused, and unintelligible to the common mind. It makes no pretension to system or analysis. We might expect to see in it some evidences of

* See the Reports of Secretary McCulloch for 1865 and 1866. It is not possible to paint a gloomier picture of our condition than these documents contain, nor to utter more discouraging predictions of what awaits us in the future.

thought, some signs of appreciation of the public anxiety concerning it. There is nothing of the kind. It merely throws things together and leaves them. Since the market for securities is built on these things, it is necessarily a market of chances, and becomes a source of injury to the national credit. The different loans rival each other by their various contingencies, and the credit divides against itself, instead of presenting a compact form in contrast with every other credit, and as much superior to all others as the resources of the whole country are greater than the resources of a small part of it. The market is torn by false rumors, to which the secrecy of the Treasury management lends plausibility. To-day the Secretary is said to be a "large seller of gold"; to-morrow the report is denied only to be reaffirmed by its originators. On another day the Secretary is represented with one hand on the national banks to force the redemption of their notes, in "legal tenders," while with the other he is scraping together these "legal tenders" from the whole face of the country, and locking them up, as if the express object was to harass those institutions and to derange the labors of the people.

Why good measures do not succeed.

As the last feature of disorganization that characterizes our public debt, we have reached the unfortunate point at which no appliances of correction appear to bring any good result. Whatever is thrown upon the stream is swept down with it, adding to its destructive force. Measures, however good in themselves, come to

naught because they have no logical connection. The best measures thus get the bad repute of having failed, and are discarded as unworthy of further trial.

Complete reorganization of the debt necessary.

Nothing will cure this mass of disorder, until our debt is completely reorganized. It is in vain that we tinker at the currency, hoard or sell gold, refund particular loans, or busy ourselves with results. We must go back to causes. Confidence only can restore us to specie payments; and confidence is the fruit of organization. The possession merely of wealth is not sufficient. No country in the world is so full of wealth as the United States; none has so small a debt, compared with resources; none pays labor so fairly, none reaps such great harvests; no other has such a body of common sense to apply to works; no other such upright laws, and such free scope for all useful powers. But we do not pay specie for our bank notes!

In the necessity for liquidating our public debt, we shall find many of the controlling terms of general organization; and by following the steps of liquidation, we shall see their meaning, their relations, and how to combine them.

In the concluding chapter of the volume we shall endeavor to put these into the shape of a system.

LIQUIDATION OF THE DEBT.

The people of the United States, after living in entire freedom from taxation for the support of the national government, find themselves suddenly oppressed by a debt of several thousand million of dollars.

Every individual subject to taxation.

The burden of this debt falls on every individual inhabitant of the country.

The rich man pays his tax in money according to the amount of his property and income.

The poor man who has no accumulated property, or not more than is exempt from taxation by law, pays his tax in higher rents, and in the greater cost of living than he would otherwise be subject to.

It is impossible that any person in the country can be free from the burden of our national debt. Whoever eats food or wears clothing pays a share of the common tax, which therefore falls on man, woman, and child. Those who do not pay for themselves must be paid for by others. Even for the infant just born the tax must be paid.

This general burden of taxation makes everybody interested to know what is the character and meaning of our public debt, and whether it can be paid off, that we may get back to the condition of those happy days when it was less of a hardship to live.

Is the debt of the United States to become permanent.

The present national debt of the United States amounts to near twenty-seven hundred million of dollars.

A famous British economist declares that there is no instance on record of a national debt ever having been "fairly and completely paid" after it reached a certain magnitude. This fact may reasonably suggest the inquiry whether there is not great danger of our own debt becoming, like that of Great Britain, a fixed, irredeemable, and perpetual burden on the people.

The payments of the Treasury during the past two years, by which the face of it has been considerably reduced, indicate the ability of the country to pay it off; but nations are subject to so many contingencies that this cannot be considered as putting the liquidation of it beyond dispute. We have no sure guarantee against war in the future; and one year of war would increase our debt more than it can be reduced by five years of peace with the highest prosperity. Even the remote chances and rumors of war furnish occasion for an expenditure of millions, while other millions are lost to the revenue by the derangement of commercial business.

We are too ready to presume that the general intelligence of the people will prevent the government of the United States from falling into the errors and disasters to which other nations have always been subject.

Let the great rebellion which burst upon us in 1861 moderate our confidence in this respect. Any prediction uttered prior to that time, that

the country would ever be loaded with the fourth part of the debt that now oppresses it, would have been regarded as the mere raving of a madman.

Yet, it is not from war that we are to apprehend the most imminent and serious interruptions to a steady reduction of the national debt; it is from mismanagement in times of peace; it is from ignorance in our public servants; it is from dishonesty in officers, clerks, and trustees; from fraudulent contracts, sinecures, and unnecessary works; from general indifference of economy; from the corruptions of political patronage, and last, if not greatest, from bad methods of finance and banking, which act unfavorably on the whole mass of labors and enterprise in the country, preventing their full development and making impossible that high measure of commercial confidence which gives the most ample and permanent revenues to the State.

Debt incurred by bad management.

"In Great Britain," says Adam Smith, "the reduction of the public debt in time of peace has never borne any proportion to the accumulation in time of war."

Does not diminish in time of peace, &c.

The British debt originated a little before the year 1700. Seventeen years of peace, ending with the year 1739, reduced it about forty-two million of dollars. Nine years of war followed, adding nearly one hundred and sixty million of dollars to it. At a subsequent period there was paid off in seven years of peace less than thirty million; but seven years of war followed and increased the debt nearly four hundred million of dollars.

The peace expenditures of modern times include the preparations for war—forts, the manufacture of war implements, the building of shot-proof vessels, arsenals, machinery, &c. The fable of the wild boar sharpening his tusks just after making a treaty of permanent peace with the other animals is a close type of the present policy of nations.

The people must be made acquainted with the cause of debt.

In the United States every controlling action of the government must have the popular assent. The people, therefore, ought to be educated in whatever relates to the debt. They must learn how it affects their interests. If the people of Great Britain had been sufficiently educated in the last century to appreciate the commercial or economical consequences of perpetual taxation, they would not have allowed their sovereigns to engage in wars of which the only lasting result has been an interminable mortgage on their labor and industry; and the same may be said of other countries.

What, then, is to be done? We are at a critical point in our history. We are now either to follow in the footsteps of other nations and transmit to posterity the system of perpetual taxation, or we are to strike out a new path that will lead to the complete discharge of our national debt and the consequent liberation of industry from an oppressive burden.

Of itself, the task of regulating such a vast economy as that of the United States is beset by great difficulties. Under the most favorable circumstances it would require an amount of study,

knowledge, experience, and general ability, which time only and the practical handling of affairs can give, and in which we are, unfortunately, at present deficient. But our internal political relations are such as add special difficulty to the task and heighten the responsibility connected with its performance.

How a just administration of the debt will restore complete National harmony.

While the Southern States remain alienated from the Union an equalized and fair taxation is impossible. The Northern States are obliged to carry more than a just share of the common burden. It is desirable that an end be put to this alienation as soon as possible; and as the public debt is the great commercial fact that presides over all labors and industries, and the restoration of these in the South is the best and only groundwork of permanent social reconciliation, it follows that the administration of the debt is the one subject above all others that demands our best thoughts and our most careful direction.

Nothing heals political wounds so surely and quickly as profitable interchanges of trade; and without these no bond of amity can be permanent.

This does not imply that the debt ought to be administered in deference to sectional interests. The same rules of guidance that will favor the restoration of labors in the South will equally encourage those of the North, as we shall endeavor to show in the proper connection.

* * * * * *

Explanation of terms.

There are certain technical expressions in common use by speakers and writers on finance

which are susceptible of different or disputable constructions.

The expression "public debt," though so simple on its face, does not explain itself. To one it signifies an abstraction of capital from trade and labor; to another it signifies an increase of capital. By one class of thinkers a public debt is regarded as a "blessing;" by another, as a curse. To the popular mind it is perhaps synonymous with private debt, indicating the same kind of burden and embarrassment to the country that is experienced by an individual who owes money and has not the immediate ability to pay it. The particular example of the manner in which our public debt was organized will greatly assist the understanding of the subject.

The vast sum of twenty-seven hundred million of dollars was paid into our national treasury in the space of a little over four years. The first transactions were as follows:

How the loans were taken up.

In July and August of the year 1861 Treasury notes were issued to the amount of near twenty-seven million of dollars.

On the 19th of August of the same year the banks of Boston, New York, and Philadelphia agreed to advance fifty million in coin to the government, receiving for it bonds having three years to run and bearing seven and three-tenths per cent. interest. This uneven rate was adopted because it was easily calculated, being exactly two cents a day on every hundred dollars, twenty cents a day on a thousand dollars, and so on.

On the 1st of October the banks agreed to advance another sum of fifty million in coin.

On the 16th of November a negotiation was effected for near forty-six million, which was the last loan paid up in coin, the suspension of specie payments following on the 31st of December. (1861).

Paid by installments and reimbursed by the sale of bonds.

These loans were advanced by the banks in installments, and the reimbursement to them went on meanwhile by the sale of bonds to individuals. They were negotiated at a time when there was an accumulation of deposits in the banks, resulting from the paralysis of commercial business by the first shock of the rebellion. A wide bankruptcy had suspended the obligations and the demands of trade, and the funds liberated thereby eagerly sought the investment proffered by the government. This part of the debt, amounting to less than two hundred million of dollars, was therefore exceptional in the manner of its organization. After the suspension of specie payments a new base was formed. An active business in the materials of war sprung up, and the demand for capital outside of the government loans competed with them. It is in the organization of the great body of the debt, consisting of twenty-five hundred million of dollars, after the normal currents of business began to revive, that we shall find the example to instruct us as to the true character and meaning of a public debt.

The process of the loans.

The expenses of the government reached about two million for every secular day during four years. The loans, of course, amounted to the same, excepting the revenue from import duties,

which, for the sake of simplicity, we leave out of present view. It is entirely to the daily transaction that our attention is now to be directed.

That transaction consisted of two parts—first, of the payment into the national Treasury of two million of dollars ; second, of the payment out of the Treasury for expenditures, of precisely the same amount. On some days there might be more paid in and less paid out ; but in the long run the amount of disbursements was equal to the receipts, and it simplifies the case to reduce it to the daily average.

Government loans do not absorb capital.

The result, then, is, that one set of people paid the two million of currency into the treasury, and it was immediately paid out on the same day to another set of people. And this is an advantage to both parties ; for the presumption is that those who pay in have more currency than they want for any immediate purpose, and those to whom it is paid out have less than they want. It goes from the latter into the hands of laborers, tradesmen, and artisans. That is to say, that the organization of the loan of two million has not taken any money out of the use of the markets. It has not absorbed one penny of capital.

We have only to repeat this transaction six times a week, and may do it with the same two million of currency, to organize twelve millions of the debt ; and continued through the year, it would organize six hundred and twenty-four million.

Let us reduce the transaction to a still lower amount. If we divide the two million into

twenty parts, one hundred thousand dollars of currency will be sufficient to organize the whole by repetition of service. We have only to suppose that each one of twenty subscribers has a demand of one hundred thousand dollars against the government, and is desirous to invest his money in the bonds as soon as he receives it. The arrangements for the sale of the bonds secure this exact result, for it is of no consequence who takes the bonds, nor whether the money employed consists of the same bank-bills in each round of service. The material facts are that the bonds are taken; that no more than one hundred thousand dollars of currency is in use at any one time to effect the negotiation; and that, when the negotiation is complete, the currency is liberated and mingles in the general mass of the circulation.

The currency returns into the circulation unimpaired.

This example shows with precision what office the currency performed in the organization of our public debt. It was that of the hammer which the carpenter uses to nail shingles on a roof. After the roof is finished the hammer is still unimpaired for service in finishing other roofs. It is true, the example supposes a more frequent repetition of service by the currency than was positively attained, or than would be practicable under ordinary circumstances. This does not, however, impair its force; and although the amount of currency displaced from commercial employments during the organization of our debt is known to have been as high as fifty million, and perhaps to have exceeded that sum, such an ab-

Use of money as an instrument.

sorption of it is to be attributed to a bad method of business, and not to any necessity of the case.

Government does not borrow money permanently;

The foregoing relation of itself explains the meaning of "borrowing money," "making a loan," and other like expressions applied to the financial transactions of the government. It shows how little ground there is for the disturbance generally created in the money market by an announcement that the Secretary of the Treasury is coming upon "the street" to borrow "a large amount of money"—say one hundred million of dollars. This means, commercially and practically, that the yearly taxes are to be increased by six million of dollars if the rate of interest be six per cent., and five million if the rate be five. It does not mean that the whole market of commerce and labor is to be distrained upon to furnish that large amount of money, to be held in sequestration until liberated by the slow course of the ordinary disbursements.

but only the transient use of it.

To speak accurately, the government does not borrow money at all. The objective point is to organize the loan, and for this purpose the borrowing, or the use of money, is the incidental method only. The process employs so small a proportion of the mass of money in circulation that no distress to the market should be allowed to arise from this source. The present mass of the currency is about eight hundred millions of dollars, not more than one per cent. of which need ever be displaced from its industrial employments by the organization of government loans, however large these may be.

The practice imposed the by Sub-treasury law of 1846 is exceptional to the foregoing statement. That practice was a designed sequestration of the funds of commerce and labor ; and so far as it continues to be adhered to in the administration of the finances, the sequestration will continue. We shall have occasion hereafter to notice more particularly this anomaly in affairs, picked up as original by American politicians ignorant of the first principles of economy, after it had lain discarded by European financiers for hundreds of years.

Currency not necessaryto the government.

The appointment of the national banks as legal depositories of the government funds does away with the necessity of using the currency in the organization of our public loans, since they can be paid up by checks on those banks, precisely in the manner by which merchants settle their accounts with each other ; and all the disbursements of the government may be carried by the same method.

Hence, there ought not to be, hereafter, any injurious consequences reflected on commerce and industry by the organization of government loans, nor by the general administration of the finances.

Exact meaning of the public debt.

We are now prepared to say what is the meaning of our "public debt" of twenty-seven hundred million of dollars.

It has taken no capital out of use ; it has not absorbed the money or currency of the country.

Bonds used as capital.

On the contrary, it has brought about the creation of new capital in the shape of the bonds

issued to those who subscribed for the government loans; and so far as these bonds are used as currency, it has increased the currency of the country.

When we say that no capital has been absorbed by the creation of the public debt, we do not forget that much capital was destroyed by the war. These are distinct matters.

Our public debt is entirely represented by the bonds. There is nothing else of it.

If we should stop just here we might suffer ourselves to be deluded by that theory which considers a national debt a "national blessing;" for a man who holds the bonds is rightly esteemed as holding so much capital.

The necessity of taxation.

But what consequences follow from the existence of the bonds?

The interest upon them must be paid, and above the interest a yearly payment must be made on the principal. Hence arises the necessity of taxation.

The debt is the tax.

We arrive, then, at the simple conclusion that the public debt is—the yearly tax. It is that, and nothing else. No burden whatever, no liability whatever, no contingency whatever, in any other shape can come upon us but that of the tax. There is no other avenue through which any consequence or influence can reach us from the debt but through this avenue of taxation.

The debt being assumed at twenty-seven hundred million of dollars, and the interest upon it

at six per cent. a year, we have no difficulty in stating its exact burden.*

Real rate of interest on the debt.

In consequence of that part of the debt which consists of "legal tenders," or treasury notes, bearing no interest, the rate on the mass as a whole has been given in the Reports of the Treasury Department at something under six per cent.; but there are other portions which pay a higher rate, viz.: the "seven-thirty notes" and those bonds on which the interest is payable in coin. While gold is at a premium the currency rate on the latter is thereby enlarged, so that the average rate has been only nominally below six per cent.

To simplify our estimate of the yearly burden of the debt, we may leave out of view the transient and irregular forms of it and consider the whole mass as of one kind. A few years will suffice to retire the "legal tenders" and the "seven-thirty notes" by their conversion into bonds, and the resumption of specie payments will do away with the premium on coin.

The maximum of interest;

It is desirable to be as exact as possible in stating the terms which enter into our calculations for the extinction of the debt, and especially to avoid an underestimate of them. We therefore assume six per cent. as the permanent average rate of interest, notwithstanding the expectation of the present Secretary of the Treasury

* The official report of the Treasury gives a lower amount; but this embraces only the audited and verified portion. Many unsettled claims are yet to be allowed, and the total is as likely to be greater than twenty-seven hundred millions as it is to fall below it.

that the main body of the debt will be finally funded at five per cent.

and the yearly burden.

The precise annual burden of the debt may accordingly be stated at one hundred and sixty-two million of dollars, decreasing as the liquidation goes on.

As an offset to the burden of the debt the bonds which represent it are capable of being used in commercial business as the equivalent of capital. The great mass is retained in custody for income merely; but they can be brought into active service at any moment. The banks, and capitalists generally, regard them as the best collateral security for loans. There is no function of money or currency that may not be answered by them; and hence it is a theory of some people that the capital of the country has substantially been increased by the whole amount of their issue. It is not, however, to be forgotten that they are in themselves a form of credit merely, and nothing else. Credit in many forms is a substitute for capital; and the public bond, being the most unquestionable form of credit that exists in the country, enjoys the highest confidence. It may readily be allowed that the issue of twenty-seven hundred million of this bond currency must play an important part in our commercial system. There can be no doubt that it has stimulated all kinds of business and given a great swell to incomes; and, so far as this is an offset to the burden of the debt, we may admit the mitigation. But there is another side to the case, and that is, the cost of this kind

Cost of the bonds as capital.

of "capital" in the various ways that it affects the community at large.

The same.

An annual tax of one hundred and sixty-two million of dollars levied on the property and labor of the country is the first item of direct cost in offset to the advantages derived from our great bond "capital." To this we add the lowest yearly payment that will enable us to carry forward the liquidation of the debt, assumed at ten million, making one hundred and seventy-two million.

Taxation displaces capital.

An attempt has been made by the advocates of that preposterous theory which considers a national debt as a "national blessing" to ignore the tax as an item of cost, on the ground that it is paid back again into the hands of our own people, who are therefore only transiently deprived of it. This implies that if it were paid out of the country, it would then be a loss of so much capital. The answer is that those who pay the tax are as really deprived of it as they would be if it were sent out of the country. It is as sore a thing in one case as in the other for the small tradesman to spare the capital out of his business. The return does not come to him in an appreciable manner or amount unless he is a bondholder, which, generally, he is not. The tax is paid out of specific income and profits, and the only supposable return is in that insensible share which floats back accidentally after it has been absorbed in the broad sea of commerce. To get it back the tradesman is obliged to struggle with the competitions of the market, and to

expend nearly or quite as much effort as it cost him in the first place.

Difference between money capital and credit capital.

Without going into the discussion "What is capital?" it is enough for our purpose to consider it as the instrument of work or business. It is either money or the credit that answers in the place of money. Money in hand is the most advantageous kind of capital, because the man who has it is independent of others; while credit, used as capital, is subject to the price or interest that others may set upon it, and is liable to be withdrawn, or is allowed to remain only for an extortionate compensation. The public bond is this latter kind of capital—inferior to money, tyrannized over by money. The bond of one hundred dollars sinks to seventy-five dollars in money when the market is tight, and in a panic it will scarcely command fifty per cent. of its face. What, then, becomes of the merchant whose sole capital consists of one hundred thousand dollars in bonds? He is the loser of fifty thousand dollars, which may ruin him. His creditors may be lenient, or he may conceal his condition until the market changes and restores him to soundness; but look at the *cost* of such capital! One man, by extraordinary nerve or by good luck, will get over the difficulty, while nine will fail. Anxiety, distress, utter disqualification for his business when it most requires his highest qualification, gray hairs, broken health, insolvency, nothing to do, a family to support, judgments for debt hanging over him—the unfortunate man is destroyed! This is not all the difference be-

tween a capital of money and a capital of bonds. In a time of financial pressure money and bonds recede inversely from the point at which they are equivalents. The distrust which makes them cease to be equivalents gives to money a supreme power over the whole mass of property and business in the country, and impairs the bond by impairing the support of it. The bond sinks in price much more than other capital which yields the same income, as houses, lands, and ships, the uses and conveniences of which remain in spite of the scarcity of money. The bond capital has but one use, while a real estate capital has many uses and more readily commands money. The latter has a permanence and indestructibility within itself, controllable by its possessor, while the former is purely representative and is controlled by others.

The same.

But the most material and distinctive bearings of our great bond capital spring from the fact that it is capital to those only who hold it and a tax to everybody else. The whole estate of the country is reaped over to supply income to the bondholders; that is, the property of the many supplies income to the few. There is consequently a progressive aggregation of the general wealth to increase particular wealth; and the longer it continues the worse it becomes. This is because the bonds partake more of the character of fixed than of circulating capital. Though they may be used as currency, they are confined by the magnitude of their denominations among those whoare able to hold and manage them, whereas the divisibility of money capital causes it to escape freely and to flow in small currents.

The bonds a capital to to the holders, but a tax to every body else.

The bond capital an exclusive capital.

Hence, our bond capital is an exclusive capital—the capital of a class; not like money, which is the capital of the people, continually and with infinite repetition applicable to small wants.

Demoralization of the markets, and of the habits of the people.

The cost of our bond currency capital includes a general demoralization of the markets, by the speculative, hazardous, and dishonest practices that creep into all kinds of business. What were formerly styled "the legitimate profits of trade" would not be sufficient, by a great deal, to meet the taxes necessary to the support of our bond capital and to pay household expenses. It is necessary, therefore, to increase sales, to drive them headlong, to reduce qualities while maintaining prices, and, in plain English, to cheat in every possible way. Besides, people no longer stick to their regular occupations. The merchant takes a venture among the stocks of Wall street; the doctor invests his fees in mining shares; the lawyer "follows suit;" clerks are tempted by the gold market; the lesson of "the cobbler's last" is unheeded; a large part of the telegraph business consists of stock orders from "the rural districts" to the city; there is no more simplicity, plainness, fair dealing, but sharpness, cunning, and circumvention. In the shops price is no longer regulated by cost, but by sheer imposition and fraud. Even house servants have learned the practice of extortion, in which they have but caught the general infection. But what shall we say of landlords whose rents reimburse to them their entire capital in three years!

Subordinate to the bond currency is the "national banking system," which yields to its stockholders three, four, and even five rates of interest. But must there not be production from which such rates are drawn?

National bank profits, a part of it.

These examples of the manner in which capital is rapidly concentrating in the hands of the few at the expense of the many foreshadow an extent of social injustice springing from social inequality, ill in keeping with the spirit of republican institutions, and may well justify fears that in the end the profits of our great bond currency will scarcely overpay its cost.

It is a fallacy centuries old that "a national debt is a national blessing." For every debt, whether public or private, there is necessarily a corresponding credit; but *debt* and *credit* are opposite terms, however, their consequences may be so mixed in the broad scene of commerce as to escape distinctive observation.

Debt not a National blessing.

If A borrow money of B, giving his note for it, and if, then, B pass the note to C, who uses it in a negotiation from which he reaps large profit, the condition of A is in no degree helped by it. He is not relieved from any obligation, nor from a single disadvantage under which he labors from having no money capital of his own. He must pay the interest nevertheless, and he is just so much the worse off in money as his creditor is the better off by its possession. He is liable to civil process and sale of his estate if he fails to pay the interest. But the injury that he suffers may not be fully measured by the mere abstraction of

that money from the urgent uses in which he needs it. Those uses are crippled and restrained of complete success for want of that which he is obliged to pay to the lender. It must be plain to the common sense of every man that these are the natural, logical, and unavoidable consequences of debt. The enlargement of debt, and their extension to a wider field where they are confused with other consequences springing from an opposite source, cannot change their character or rule them out of existence.

Example. To carry the example further, if A could buy up his note, through an agent, at one-half the face of it, this would not establish any logical offset to the consequences of his debt. He might even cancel it by some other negotiations and get rid of his debt altogether; but that would not establish such offset, since it would be the result of an independent action, precisely as if another person, and not the debtor, had performed it.

This is a literal picture of the operation of our national debt. The results of the credit side of the account are so agreeable, they are pushed and piled up so ostentatiously, that they fill the public eye, while the hardships of the debit side are kept back and concealed, as a man will always conceal the contrarieties and losses of his business lest they injure his commercial standing and consequence in the community.

Liquidation of the debt. The point of highest interest to the popular mind concerning the debt relates to its liquidation. Can it be paid off—how, and within what time? Many different plans have been proposed

for its discharge, all agreeing, however, in one particular, viz.: In assuming a given period upon which the yearly payments shall be graduated. These periods range from fifteen to one hundred years; and no plan has been promulgated, that we are aware of, which has not for its initial term a certain number of years over which the payments shall be distributed, and to which, accordingly, taxation must be adjusted. But since the liquidation of a public debt is necessarily subject to the general economy, it ought to be directed by rules and methods consistent with that economy. The means of payment cannot be provided otherwise than by taxation, and taxation is legislation of the most positive kind over the social life of the people, as well as over their commercial employments. Consequently, all plans of liquidation that begin by fixing arbitrarily on a certain time within which the debt must be discharged are empirical. Not only so, they are dangerous to the general economy, because they exact from it the means of payment without reference to its capacity for the production of those means. A system of labor may bear for a term of years a much heavier tax than ought to be imposed on it, or that can be imposed without injury to the sources of production. Hence it appears that liquidation is an act of commerce and must be administered on commercial principles.

Liquidation an act of commerce.

It can hardly be disputed that when any valuable interest is opposed by an unavoidable necessity, the latter should be so regulated as to bear against the former as lightly as possible.

Natural law of liquidation.

Taxation is such necessity, and is always onerous at best.

It should therefore be kept at the lightest instead of being urged at the heaviest.

Heavy taxation does not reduce the load, but only changes its relations.

The part of wise statesmanship must be to make the most of our economy, not to press against it, at undue cost, the single point of discharging the debt; since to make the most of our economy is to bring about that state of things which soonest relieves the burden of debt. Nothing is gained materially, but much lost, if a debt be canceled by so straining the general economy as to impair its efficiency; for that is not to remove, but only to change the character of the incumbrance. In effect, it is to maim the true capital of a country. The country will lose, not only what is directly sacrificed, but also the deficiency of product consequent on the injury to its capital. Though the debt is a burden, it must be borne, and to carry it with the least prejudice to our resources is as much a part of our economy as production itself.

In the following table we assume our present national debt to be twenty-seven hundred million, and the annual interest, in round figures. one hundred and sixty-two million.

The adoption of a constant of payment.

On the theory of reducing it by the most gradual scale that will carry forward the liquidation while pressing as lightly as possible on the productive energies of the country, we adopt the sum of ten million of dollars as a yearly constant of payment to apply conjointly with the

liberated interest on the decreasing principal. The addition of this constant to the interest requires an annual revenue of one hundred and seventy-two million.

The first year takes ten million from the principal. **Operation of the constant.**

The second year adds to the constant the interest on ten million, which is six hundred thousand dollars.

The third year adds the interest on twenty million six hundred thousand dollars, which is one million two hundred and thirty-six thousand dollars, and the continued process will extinguish the entire debt in forty-eight years.

To accomplish this it is necessary to continue the taxation of one hundred and seventy-two million during the whole period. The result is the same as placing ten million at compound interest, compounding once a year.

The rule, therefore, for ascertaining the time of completing the liquidation of any sum on this principle is to compound the interest on the constant that is to be applied to it. **Rule.**

Practically there is no such thing as the compounding of interest in commerce; but, on the plan here proposed, the same result accrues from maintaining the taxation and conjoining the liberated interest with the constant of payment.

TABLE OF LIQUIDATION,

with a continuous yearly taxation of $172,000,000.

Opposite the year, on the same line, is the principal of the debt, and the interest at six per cent.

The sum subtracted is the difference between the interest and the amount of the tax.

1866	$2,700,000,000	$162,000,000
	10,000,000—	*Constant.*
1867	2,690,000,000	161,400,000
	10,600,000	
1868	2,679,400,000	160,764,000
	11,236,000	
1869	2,668,164,000	160,089,840
	11,910,160	
1870	2,656,253,840	159,375,230
	12,624,770	
1871	2,643,629,070	158,617,744
	13,382,256	
1872	2,630,246,814	157,814,809
	14,185,191	
1873	2,616,061,623	156,963,697
	15,036,303	
1874	2,601,025,320	156,061,519
	15,938,481	
1875	2,585,086,839	155,105,210
	16,894,790	
1876	2,568,192,049	154,091,522

1876	$2,568,192,049	$154,091,522
	17,908,478	
1877	2,550,283,571	153,017,014
	18,982,986	
1878	2,531,300,585	151,878,035
	20,121,965	
1879	2,511,178,620	150,670,717
	21,329,283	
1880	2,489,849,337	149,390,960
	22,609,040	
1881	2,467,240,297	148,034,418
	23,965,582	
1882	2,443,274,715	146,596,483
	25,403,517	
1883	2,417,871,198	145,072,272
	26,927,728	
1884	2,390,943,470	143,456,608
	28,543,392	
1885	2,362,400,078	141,744,004
	30,255,996	
1886	2,332,144,082	139,928,645
	32,071,355	
1887	2,300,072,727	138,004,363
	33,995,637	
1888	2,266,077,090	135,964,629
	36,035,375	
1889	2,230,031,715	133,802,503
	38,197,497	
1890	2,191,844,218	131,510,653

1890	$2,191,844,218	$131,510,653
	40,489,347	
1891	2,151,354,871	129,081,292
	42,918,708	
1892	2,108,436,163	126,506,170
	45,493,830	
1893	2,062,942,333	123,776,540
	48,223,460	
1894	2,014,718,873	120,883,132
	51,116,868	
1895	1,963,602,005	117,816,120
	54,183,880	
1896	1,909,418,125	114,565,087
	57,434,913	
1897	1,851,983,212	111,118,993
	60,881,007	
1898	1,791,102,205	107,466,132
	64,533,868	
1899	1,726,568,337	103,594,100
	68,405,900	
1900	1,658,162,437	99,489,746
	72,510,254	
1901	1,585,652,183	95,139,130
	76,860,870	
1902	1,508,791,313	90,527,479
	81,472,521	
1903	1,427,318,792	85,639,127
	86,360,873	
1904	1,340,957,919	80,457,475

1904	$1,340,957,919	$80,457,475
	91,542,525	
1905..	1,249,415,394..	74,964,923
	97,035,077	
1906..	1,152,380,317..	69,142,818
	102,857,182	
1907..	1,049,523,135..	62,971,388
	109,028,612	
1908..	940,494,523..	56,429,671
	115,570,329	
1909..	824,924,194..	49,495,451
	122,504,549	
1910..	702,419,645..	42,145,178
	129,854,822	
1911..	572,564,823..	34,353,889
	137,646,111	
1912..	434,918,712..	26,095,123
	145,904,877	
1913..	289,013,835..	17,340,830
	154,659,170	
1914..	134,354,665..	8,061,280

The scale arrested by the natural law of liquidation.

It is impossible that a scale of liquidation so concentrated as this could be carried into complete effect without serious injury to the resources of the country.

For the same reason that the lowest constant of payment should be adopted, the first moment ought to be seized to reduce the rate of taxation, when it can be done without impairing the effi-

ciency of the redemption. We may presume this to be about the eighteenth year of the scale when the principal of the debt has been so reduced that ten per cent. of the taxes may be abated without injury to the action of the constant.

There are other reasons to be stated hereafter why the course of liquidation should be retarded at or near this point in the scale. But first let us trace it to its issue by the ameliorated method of reducing the taxation at successive periods, while at the same time keeping the redemption within the power of the constant.

Action of the scale.

With the yearly taxation of one hundred and seventy-two million the annual payment increases to near twenty-seven million in the eighteenth year, and nearly three hundred million of the debt will have been extinguished. The interest has been reduced from one hundred and sixty-two to one hundred and forty-five million. This is the result of the first term of taxation, beginning with the constant of ten million.

Divided into periods.

The second term begins by abating from the taxation all of the annual payment above the constant. Throwing off the even sum of seventeen million reduces the constant a little below the original amount; but the yearly accretion of payment goes on by the same process as before, and soon acquires the same momentum. In seventeen years it cancels another three hundred million of the debt, reducing the interest from one hundred and forty-five to one hundred and twenty-eight million of dollars.

At the beginning of the third term the taxation is reduced to one hundred and thirty-eight million, which, continued for nineteen years, pays off over three hundred million more of the debt, and brings down its annual burden to one hundred and eight million.

Each of the successive terms which follow begins by throwing off all the taxation above the amount of the constant; and the result is the entire extinction of the debt in one hundred and forty-two years.

Shortest time within which the debt can be entirely paid.

After the taxation is reduced to fifty million, the action of the whole movement of the debt becomes so gentle that it requires no further amelioration. This would be in 1977—one hundred and eleven years from the present date. There cannot be a doubt that our enlarged commerce will then, if not sooner, admit of the whole taxation being abolished, and of the remaining liquidation being cast on import duties, if that should be preferable, so that for all practical purposes we may regard the debt as extinguishable by this process in about one hundred years from the present time, and that without any sensible strain on our productive resources.

TABLES OF LIQUIDATION.

The following tables exhibit the process of liquidation, by successive periods, in which the annual reserves accumulate as capital, instead of being abstracted from use as fast as they accrue.

Opposite the year, on the same line, is the principal of the debt, and the interest at six per cent.

The sum subtracted is the difference between the interest and the amount of the tax.

The first table proceeds with a yearly taxation of $172,000,000.

1866	$2,700,000,000	$162,000,000
	10,000,000— *Constant.*	
1867	2,690,000,000	161,400,000
	10,600,000	
1868	2,679,400,000	160,764,000
	11,236,000	
1869	2,668,164,000	160,089,840
	11,910,160	
1870	2,656,253,840	159,375,230
	12,624,770	
1871	2,643,629,070	158,617,744
	13,382,256	
1872	2,630,246,814	157,814,809
	14,185,191	
1873	2,616,061,623	156,963,697

1873	$2,616,061,623	$156,963,697
	15,036,303	
1874	2,601,025,320	156,061,519
	15,938,481	
1875	2,585,086,839	155,105,210
	16,894,790	
1876	2,568,192,049	154,091,522
	17,908,478	
1877	2,550,283,571	153,017,014
	18,982,986	
1878	2,531,300,585	151,878,035
	20,121,965	
1879	2,511,178,620	150,670,717
	21,329,283	
1880	2,489,849,337	149,390,960
	22,609,040	
1881	2,467,240,297	148,034,418
	23,965,582	
1882	2,443,274,715	146,596,483
	25,403,517	
1883	2,417,871,198	145,072,272

The second table is carried with the yearly taxation reduced to $155,000,000.

1883	$2,417,871,198	$145,072,272
	9,927,728	
1884	2,407,943,470	144,476,608
	10,523,392	
1885	2,397,420,078	143,845,204

1885	$2,397,420,078	$143,845,204
	11,154,796	
1886..	2,386,265,282..	143,175,917
	11,824,083	
1887..	2,374,441,199..	142,466,472
	12,533,528	
1888..	2,361,907,671..	141,714,460
	13,285,540	
1889..	2,348,622,131..	140,917,328
	14,082,672	
1890..	2,334,539,459..	140,072,367
	14,927,633	
1891..	2,319,611,826..	139,176,709
	15,823,291	
1892..	2,303,788,535..	138,227,312
	16,772,688	
1893..	2,287,015,847..	137,220,950
	17,779,050	
1894..	2,269,236,797..	136,154,208
	18,845,792	
1895..	2,250,391,005..	135,023,460
	19,976,540	
1896..	2,230,414,465..	133,824,868
	21,175,132	
1897..	2,209,239,333..	132,554,360
	22,445,640	
1898..	2,186,793,693..	131,207,621
	23,792,379	
1899..	2,163,001,314..	129,780,078
	25,219,922	
1900..	2,137,781,392..	128,266,883

The third table reduces the yearly taxation to $138,000,000.

1900	$2,137,781,392	$128,266,883
	9,733,117	
1901..	2,128,048,275..	127,682,896
	10,317,104	
1902..	2,117,731,171..	127,063,870
	10,936,130	
1903..	2,106,795,041..	126,407,702
	11,592,298	
1904..	2,095,202,743..	125,712,164
	12,287,836	
1905..	2,082,914,907..	124,974,894
	13,025,106	
1906..	2,069,889,801..	124,193,388
	13,806,612	
1907..	2,056,083,189 ..	123,364,991
	14,635,009	
1908..	2,041,448,180..	122,486,890
	15,513,110	
1909..	2,025,935,070 ..	121,556,104
	16,443,896	
1910..	2,009,491,174 ..	120,569,470
	17,430,530	
1911..	1,992,060,644 ..	119,523,638
	18,476,362	
1912..	1,973,584,282..	118,415,057
	19,584,943	
1913..	1,953,999,339 ..	117,239,960

1913	$1,953,999,339	$117,239,960
	20,760,040	
1914..	1,933,239,299 ..	115,994,357
	22,005,643	
1915..	1,911,233,656 ..	114,674,019
	23,325,981	
1916..	1,887,907,675 ..	113,274,460
	24,725,540	
1917..	1,863,182,135 ..	111,790,928
	26,209,072	
1918..	1,836,973,063..	110,218,383
	27,781,617	
1919..	1,809,191,446..	108,551,486

The fourth table reduces the yearly taxation to $120,000,000.

1919	$1,809,191,446	$108,551,486
	11,448,514	
1920..	1,797,742,932..	107,864,576
	12,135,424	
1921..	1,785,607,508..	107,136,450
	12,863,550	
1922..	1,772,743,958..	106,364,637
	13,635,363	
1923..	1,759,108,595..	105,546,515
	14,453,485	
1924..	1,744,655,110..	104,679,306
	15,320,694	
1925..	1,729,334,416..	103,760,064

1925	$1,729,334,416	$103,760,064
	16,239,936	
1926..	1,713,094,480..	102,785,669
	17,214,331	
1927..	1,695,880,149..	101,752,808
	18,247,192	
1928..	1,677,632,957..	100,657,977
	19,342,023	
1929..	1,658,290,934..	99,497,456
	20,502,544	
1930..	1,637,788,390..	98,267,303
	21,732,697	
1931..	1,616,055,693	96,963,341
	23,036,659	
1932	.1,593,019,034 .	95,581,142
	24,418,858	
1933..	1,568,600,176..	94,116,010
	25,883,990	
1934..	1,542,716,186..	92,562,970
	27,437,030	
1935..	1,515,279,156..	90,916,749
	29,083,251	
1936..	1,486,195,905..	89,171,754

The fifth table reduces the yearly taxation to $100,000,000.

1936	$1,486,195,905	$89,171,754
	10,828,246	
1937..	1,475,367,659..	88,522,059

1937	$1,475,367,659	$88,522,059
	11,477,941	
1938	1,463,889,718	87,833,383
	12,166,617	
1939	1,451,723,101	87,103,386
	12,896,614	
1940	1,438,826,487	86,329,589
	13,670,411	
1941	1,425,156,076	85,509,364
	14,490,636	
1942	1,410,665,440	84,639,926
	15,360,074	
1943	1,395,305,366	83,718,322
	16,281,678	
1944	1,379,023,688	82,741,421
	17,258,579	
1945	1,361,765,109	81,705,906
	18,294,094	
1946	1,343,471,015	80,608,260
	19,391,740	
1947	1,324,979,275	79,444,756
	20,555,244	
1948	1,303,524,031	78,211,442
	21,788,558	
1949	1,281,735,473	76,904,128
	23,095,872	
1950	1,258,639,601	75,518,376
	24,481,624	
1951	1,234,157,977	74,049,478

1951	$1,2341,57,977	$74,049,478
	25,950,522	
1952..	1,208,207,455..	72,492,447
	27,507,553	
1953..	1,180,699,902..	70,841,994
	29,158,006	
1954..	1,151,541,896..	69,092,513
	30,907,487	
1955..	1,120,634,409..	67,238,064
	32,761,936	
1956..	1,087,872,473..	65,272,348

The sixth table reduces the yearly taxation to $75,000,000

1956	$1,087,872,473	$65,272,348
	9,727,652	
1957..	1,078,144,821..	64,688,689
	10,311,311	
1958..	1,067,833,510..	64,070,010
	10,929,990	
1959..	1,056,903,520..	63,414,211
	11,585,789	
1960..	1,045,317,731..	62,719,064
	12,280,936	
1961..	1,033,036,795..	61,982,208
	13,017,792	
1962..	1,020,019,003..	61,201,140
	13,798,860	
1963..	1,006,220,143..	60,373,208

1963	$1,006,220,143	$60,373,208
	14,626,792	
1964..	998,593,351..	59,495,601
	15,504,399	
1965..	976,088,952..	58,565,337
	16,434,663	
1966..	959,654,289..	57,579,257
	17,420,743	
1967..	942,233,546..	56,534,012
	18,465,988	
1968..	923,767,558..	55,426,053
	19,573,947	
1969..	904,193,611..	54,251,616
	20,748,384	
1970..	883,445,227..	53,006,713
	21,993,287	
1971..	861,451,940..	51,687,116
	23,312,884	
1972..	838,139,056..	50,288,343
	24,711,657	
1973..	813,427,399..	48,805,643
	26,194,357	
1974..	787,233,042..	47,233,982
	27,766,018	
1975..	759,467,024..	45,568,021
	29,431,979	
1976..	730,035,045..	43,802,102
	31,197,898	
1977..	698,837,147..	41,930,228

The seventh table reduces the yearly taxation to $50,000,000.

1977..	$698,837,147..	$41,930,228
	8,069,772	
1978..	690,767,375..	41,446,042
	8,553,958	
1979..	682,213,417..	40,932,805
	9,067,195	
1980..	673,146,222..	40,388,773
	9,611,227	
1981..	663,534,995..	39,812,100
	10,187,900	
1982..	653,347,095..	39,200,825
	10,799,175	
1983..	642,547,920..	38,552,875
	11,447,125	
1984..	631,100,795..	37,866,047
	12,133,953	
1985..	618,966,842..	37,138,010
	12,861,990	
1986..	606,104,852..	36,366,291
	13,633,709	
1987..	592,471,143..	35,548,268
	14,451,732	
1988..	578,019,411..	34,681,164
	15,318,836	
1989..	562,700,575..	33,762,034
	16,237,966	
1990..	546,462,609..	32,787,756

1990..	$546,462,609..	$32,787,756
	17,212,244	
1991..	529,250,365..	31,755,022
	18,244,978	
1992..	511,005,387..	30,660,323
	19,339,677	
1993..	491,665,710..	29,499,942
	20,500,058	
1994..	471,165,652..	28,269,939
	21,730,061	
1995..	449,435,591..	26,966,135
	23,033,865	
1996..	426,401,726..	25,584,103
	24,415,897	
1997..	401,985,829..	24,119,149
	25,880,851	
1998..	376,104,978..	22,566,298
	27,433,702	
1999..	348,671,276..	20,920,276
	29,079,724	
2000..	319,591,552..	19,175,493
	30,824,507	
2001..	288,767,045..	17,326,022
	32,673,978	
2002..	256,093,067..	15,365,583
	34,634,417	
2003..	221,458,650..	13,287,519
	36,712,481	
2004..	194,746,169..	11,684,770

04..	$194,746,169..	$11,68 4,770
	38,315,230	
2005..	156,430,939..	9,385,856
	40,614,144	
2006..	115,816,795..	6,949,007
	43,050,993	
2007..	72,765,802..	4,365,948
	45,634,052	
2008..	27,131,750..	

SUMMARY OF THE FOREGOING TABLES.

A yearly taxation of

$172,000,000	in 17	years	will reduce	the debt	to	2,417,871,198
155,000,000	" 17	"	"	"	"	2,137,781,392
138,000,000	" 19	"	"	"	"	1,809,191,446
120,000,000	" 17	"	"	"	"	1,486,195,905
100,000,000	" 20	"	"	"	"	1,087,872,473
75,000,000	" 21	"	"	"	"	698,837,147
50,000,000	" 31	"	"	"	"	000,000,000
	142 years.					

The rule on which this plan of payment is constructed is—*to keep taxation at the lowest rates that will effect the purpose of liquidation.* Low taxation the natural rule.

Though very simple, this rule contains the most important principles of fiscal administration.

It is a self-evident and scientific principle, which demands that no more of the general The scientific law.

powers of a system shall be appropriated to a particular purpose than are necessary to accomplish that purpose.

In applying this principle to our public economy it is impossible to avoid all errors of judgment. It is, nevertheless, our best guide; and the only term of uncertainty that arises under it relates to the amount of the yearly constant of payment. A higher constant than ten millions would shorten the process of liquidation; but it would require the taxes to be increased.

The whole tax required. The foregoing tables of liquidation exhibit the total taxation which must be paid in order to extinguish the debt on a certain scale of reduction. It reaches the prodigious sum of twelve thousand five hundred and twenty-eight million of dollars. That is to say, with the lowest rates of taxation that will bring the debt within the power of our resources and carry forward its liquidation by sensible degrees, there must be withdrawn from the trade and labors of the country, in continuity, an amount of capital sufficient to discharge it five times over if it could be directly applied. It may well be questioned whether all the advantages derived from our bond currency will compensate for the detriment to commerce and industry inseparable from the process.

High taxation creates social inequalities. The natural tendency of excessive taxation is to create a ruling and a subject class in society. The whole mass of property and labor is reaped over, and the product goes into possession of the few,

gradually concentrating in their hands the power of money and credit, and finally the public offices also. The higher the tax the more rapidly does this unequalizing process go on. No tyranny is more absolute than the tyranny of circumstances growing out of the domination of capital, and no dependence more servile than the dependence for bread. The condition of emigrants from the British empire when they arrive in the United States is an example of the almost savage ignorance and helplessness resulting from the long and unmitigated action of an oppressive and ill-managed public debt. It is worthy of remark that the same allegations have been made of that debt which are now made of the debt of the United States—that the great consol currency which represents it is a beneficent capital, a source of prosperity to industry, and even the corner-stone of the commercial superiority of England in the markets of the world. But the cost of that capital has been entirely overlooked. It holds labor in the toils of subjection and sinks the man to a condition of servility.

Example of the British debt.

Excessive taxation, long continued, discourages all industry in the hands of small capitalists, on which the profit is small. These must inevitably be absorbed by the large capitalists, who, besides being able to realize compensation by cheaper methods of work and larger sales, absorb also the profits which were formerly distributed among a greater number of manufacturers. The ex-manufacturers are then thrown into the field of naked labor, increasing the competition for wages and tending to reduce the com-

Discourages small industries and establishes monopolies.

forts of life to the lowest tolerable degree. This consequence being once established, the rich capitalists possess a monopoly and may enlarge their profits at the expense of the community. The wages class of people may then be said to be almost owned by the moneyed class. They are hemmed in by necessity on every side, and their condition becomes needy. The further we trace these consequences of high and long-continued taxation the more it is manifest that their weight, which is the weight of the public debt, falls most heavily on those who are least able to bear it; while the profits realized from the corresponding credit in the shape of bonds go to the few.

Is a temptation to fraud on the revenue. High taxation tempts men to conceal property and to make false returns of income. An increase of tax grows out of this, because it swells the expenses of collection and reduces the net revenue. It is known by the discoveries of our own government officers that the revenue is extensively defrauded by evasion and even by perjury. The experience of other governments has been the same. In proportion to these frauds an undue amount of tax is reflected on the voluntary payers, who then feel that they are the victims of injustice and begin to find excuses for the same practice. It is not difficult to do so among the infinite pretexts of legal ingenuity; and so it comes about that men who yesterday spurned the thought of defrauding the government are to-day gratified by the impunity of their success, which they interpret into justification.

Plan of Secretary McCulloch.

The Secretary of the Treasury, in his report for the year ending June 30, 1865, presents a plan by which the public debt may be extinguished in from twenty-eight to thirty-two years, according to the rate of interest at which the mass shall be funded. It is very simple and entirely arbitrary. It proposes to raise by tax two hundred million a year above the ordinary expenses of government, and to apply of that sum to the extinction of the debt all over the annual interest upon it.

If the whole debt be so funded as to bear an interest of five and one-half per cent., this process would extinguish it in thirty-two years. If the interest could be reduced to five per cent., it would require but twenty-eight years.

He proposes a tax of two hundred million a year.

"After careful reflection," says the report, "the Secretary concludes that no act of Congress would be more acceptable to the people, or better calculated to strengthen the national credit, than one which should provide that two hundred millions of dollars, commencing with the next fiscal year, shall be annually applied to the payment of the interest and principal of the national debt. The estimates for the next fiscal year indicate that a very much larger amount could be so applied without an increase of taxes."—p. 25.

And repudiates all laws of production.

We have already stated some of the reasons why an arbitrary plan of this kind should not be attempted. It ignores all natural laws of commerce. While it proposes to draw heavily and continuously on our resources, it does not consider how those resources will be affected by the process. It repudiates the idea that there are

any laws of production which are entitled to respect and the violation of which will lessen the product. It pays no regard whatever to a provision for reserves—one of the first terms of successful finance; but, by consuming entirely the annual resources it leaves the State naked before the sword of an enemy.

Plan of the Secretary carried out.

The following table exhibits the plan of the Secretary carried to its conclusion, with a continuous yearly taxation of $200,000,000:

	$2,700,000,000..	162,000,000
	38,000,000	
1.	2,662,000,000..	159,720,000
	40,280,000	
2.	2,621,720,000..	157,303,200
	42,696,800	
3.	2,579,023,200..	154,741,392
	45,258,608	
4.	2,533,764,592..	152,025,875
	47,974,125	
5.	2,485,790,467..	149,147,428
	50,852,572	
6.	2,434,937,895..	146,096,273
	53,903,727	
7.	2,381,034,168..	142,862,050
	57,137,950	
8.	2,323,896,218..	139,433,772
	60,566,228	
9.	2,263,329,990..	135,799,799

9.	$2,263,329,990	$135,799,799
	64,200,201	
10.	2,199,129,789..	131,947,787
	68,052,213	
11.	2,131,077,576..	127,864,654
	72,135,346	
12.	2,058,942,230..	123,536,534
	76,463,466	
13.	1,982,478,764..	118,948,725
	81,051,275	
14.	1,901,427,489..	114,085,649
	85,914,351	
15.	1,815,513,138..	108,930,788
	91,069,212	
16.	1,724,443,926..	103,466,635
	96,533,365	
17.	1,627,910,561..	97,674,634
	102,325,366	
18.	1,525,585,195..	91,535,111
	108,464,889	
19.	1,417,120,306..	85,027,218
	114,972,782	
20.	1,302,147,524 .	78,128,851
	121,871,149	
21.	1,180,276,375..	70,816,582
	129,183,418	
22.	1,051,092,957..	63,065,577
	136,934,423	
23.	914,158,534..	54,849,512

23.	$914,158,534..	$46,140,512
	145,150,488	
24.	769,008,046..	46,140,482
	153,859,518	
25.	615,148,528..	36,908,911
	163,091,089	
26.	452,057,439..	27,123,446
	172,876,554	
27.	279,180,885..	16,750,852
	183,249,148	
28.	95,931,737	

Estimates of the Secretary. The estimates of ordinary expenditure for the year ending June 30, 1867, are near one hundred and forty-three million.

The plan of Mr. McCulloch will therefore require a continuous annual revenue of three hundred and forty-three million of dollars for the space of twenty-eight years. His estimate for the same year, of receipts from customs and sources other than the excise, is one hundred and twenty-one million, leaving to be gathered by the direct tax two hundred and twenty-two million.

But the Secretary's estimate of revenue from the direct tax for the year ending June 30, 1867, is two hundred and seventy-five million, which is fifty-three million in excess of his requirement to extinguish the debt in twenty-eight years.

If there are no bad consequences to be apprehended from high rates of taxation, why not apply this fifty-three million also to the pay-

ment of the debt, and make the term of liquidation still shorter? For some unexplained cause the Secretary remits this amount; and we suppose it to be that he vaguely recognizes some expedient limit to taxation, or some natural law of economy in favor of the slower liquidation.

A century since, Adam Smith advanced four propositions in which he designed to embody the natural rules or principles of taxation, and which, says John Stuart Mill, "having been generally concurred in by subsequent writers, may be said to have become classical." These are briefly: **Adam Smith's four rules.**

1. Taxation should be in proportion to the revenue enjoyed under the protection of the State.
2. It should be certain, and not arbitrary.
3. "It ought to be levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it."
4. "Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the State."

The first of these propositions neither admits of dispute nor needs explanation. The second refers to the time, manner, and amount of payment, requiring that they be made certain by law, and trusting nothing to the arbitrary disposition of administrators, who, if left without restraint, have the power of tyrants, and gen- **They sustain the policy of gradual liquidation**

erally exert it. This proposition, jointly with the third, which contemplates particularly the convenience of the taxpayers, includes also the consideration of their ability, on which the certainty of payment depends.

Although the fourth proposition has special reference to the expenses of collection, but for which the tax might be lighter, it contains the argument heretofore stated that money taken out of use on any ground is at the expense of production, and therefore an injury to the community generally.

In substance these propositions include the rule that every part of a system of economy ought to be so managed as to get the best result from the whole. This rule is directly opposed and set at naught by the plan of Mr. McCulloch, which contemplates the extinction of the debt in a given time, on which taxation must be apportioned, without considering what effect is to be produced by it on the common interest of labor and trade.

The gradual scale of liquidation allows the accumulation of vast reserves, while the concentrated scale consumes everything as it goes along.

What are yearly reserves.

The financial reserve of a country is that capital of which the unconsumed part of the yearly resources is the interest.

That is to say, if the yearly taxes amount to three hundred and forty-three million, which is the sum called for by Mr McCulloch's plan, and

if the country is not able to bear more than that, then, if it be all consumed, there is no reserve for any contingency that may demand more. If war should break out, there is nothing to fall back on. But if only three hundred and fifteen million be consumed, which is the sum required by the gradual scale (that is, one hundred and seventy-two million for the debt and one hundred and forty-three million for the ordinary expenses), there is a balance of twenty-eight million left, the capital of which at six per cent. is four hundred and sixty-eight million.

In the second year, the difference would be still more in favor of the gradual scale, because the twenty-eight million being left in the hands of the people to "fructify," would have its increase by use as capital, to add to the resources.

The gradual scale allows the accumulation of capital instead of its constant dispersion;

There is allowed the same sum on both scales for the ordinary expenses of the government—one hundred and forty-three million; but those expenses would be materially reduced by the gradual scale, as a large amount of clerical service might be dispensed with, and the peculations would be less in proportion.

There is another point secured by the gradual scale, at the end of seventeen years, in the reduction of the taxes from one hundred and seventy-two millions to one hundred and fifty-five million. The annual reserve would then be seven hundred and seventeen million of dollars, that being the capital of what is saved from the yearly resources. On the concentrated scale it would be nothing.

And secures a regular and certain decrease of the taxes.

At the end of the second term, which will be in

the year 1900, the taxation is reduced seventeen million more, and the reserve exceeds a thousand million.

The process exemplified.

The following table exhibits the action of the gradual plan from the beginning to the complete redemption of the debt:

	TAXES DIMINISHING.	RESERVE INCREASING.
1865..........	$172,000,000	$468,000,000
1883..........	155,000,000	717,000,000
1900..........	138,000,000	1,038,000,000
1919..........	120,000,000	1,335,000,000
1936..........	100,000,000	1,668,000,000
1956..........	75,000,000	2,083,000,000
1977..........	50,000,000	2,500,000,000
1998..........	50,000,000	2,500,000,000
2008..........	....	2,700,000,000

By this method, the taxes diminish inversely as the reserve increases; and the organization of the reserve as capital goes steadily forward on the terms most favorable to development and enlargement.

The two methods compared.

On the concentrated plan, the opposite consequences follow. There is no accumulation of a yearly reserve. The resources are relatively on the decline, and the taxes, of course, more difficult to pay. Capital is perpetually displaced. The productive energy of the country is foiled; and all business resting on it is embarrassed.

The exact revenue required by the Secretary.

We have chosen for our example the exact revenue demanded by the Secretary of the Treasury, and by him recommended to Congress, to avoid the criticism of advancing an original hypothesis—that is, two hundred million a year for the extinction of the debt, and

one hundred and forty-three million for the ordinary expenditures of the government; together, three hundred and forty-three million.

Notwithstanding the fact that our total revenue is now said to exceed five hundred million a year, it is not thence to be inferred that the country is able to bear such a burden for a number of successive years. The rate is oppressive; and when the high strain of political excitement which now prevails shall pass away, it will be seized upon by demagogues and made the bone of our elections, which cannot fail to be a most unfortunate issue for the public credit.

The foregoing scale does not contemplate the improvement and extension of our productive area. What the country is able to bear now, it must become better and better able to bear in the future, with a steadily increasing population.

The natural law of liquidation imperative.

But even if our reserves were much greater, that would be no excuse for violating the commercial principle under which all taxation should be levied, viz.: to make the most of the general economy. It is to this principle, which contains everything relating to the common prosperity, that every step of financial management ought to be referred. The first thing it involves is individual prosperity; and individual prosperity is the necessary basis of public credit. If the individual members of a society do not prosper in their affairs, it is impossible that the sum of affairs can be prosperous.

Private credit the foundation of public credit.

The connection between the public credit of the United States and the private credit of individuals,

has been made so intimate as to establish an extraordinary mutual dependence between them. The public bonds constitute the only legal basis of the banking system. "The National Bank Currency" rests on them alone. They are themselves currency, restricted in the function of bank bills only by their inconvenient denominations, and their carriage of interest. They are both commercial capital and circulating medium; and forming as they do, a large part of the general credit, it follows that their liquidation must cause either a reduction of the mass of credit or a change in the form of it. Hence a rapid liquidation like that of the concentrated scale would enforce a very violent action on the markets. Independently of the prodigious abstraction of capital by taxation, the actual annulment of capital * would go on in the following manner, the only amelioration coming from whatever substitution of other capital might be brought about by individuals in their commercial business.

The plan of the Secretary cancels capital.

There would be cancelled in the first year, thirty-eight million of capital, &c.

1....	$38,000,000	15....	$86,000,000
2....	40,000,000	16....	91,000,000
3....	43,000,000	17....	97,000,000
4....	45,000,000	18....	102,000,000
5....	48,000,000	19....	108,000,000
6....	51,000,000	20....	115,000,000
7....	54,000,000	21....	122,000,000
8....	57,000,000	22....	129,000,000
9....	61,000,000	23....	137,000,000
10....	64,000,000	24....	145,000,000
11....	68,000,000	25....	154,000,000
12....	72,000,000	26....	163,000,000
13....	76,000,000	27 ...	173,000,000
14....	81,000,000	28....	183,000,000

* "The public debt of the United States is the capital of the citizen." Rep. of Sec. McCulloch for 1865, p. 15.

Such is a literal picture of the plan of liquidation recommended to Congress by the Secretary of the Treasury. It has the single merit of putting an end to our national debt in twenty-eight years; but there is little difficulty in perceiving that it would put an end to commerce at the same time. If there were no other objection than the monstrous change of credit and investment enforced by it, that is enough to condemn it without an experiment We have frequently seen the ordinary and healthful action of our markets suspended and almost paralyzed by the mere shadow of a loan of twenty-five million being thrown over them from Washington. The expectancy alone of the chances of speculation in that amount of public securities has caused funds to be withdrawn from other investments to three or four times the sum. But here is a change called for, beginning with thirty-eight million the first year and rolling itself in an annually increasing volume over and through all the interests of commerce and labor, until it reaches the enormous magnitude of two hundred million a year, when it ceases in one day! To appreciate the violence of this scale, we must observe its annual steps, how inexorably they advance, each one heavier than the preceding, with a still heavier threatening on the morrow.

It is a process of commercial ruin.

"The debt of the nation is the capital of the citizen," says Mr. McCulloch. (Report of 1865, p. 15). "The means of the merchant, manufacturer and farmer, and also those of the working-

Text of the Secretary.

man and the soldier, have been liberally invested in it."

Taxation transfers capital from the money-drawer of the tradesman into the purse of the bond-holder.

What the Secretary requires, on his own theory, is, therefore, that "the merchant, manufacturer, farmer, workingman and soldier," shall pay out of their business in the space of twenty years, twenty-seven hundred million of their capital! It is no amelioration of the hardship, as we have elsewhere said, that the capital so withdrawn goes back into the channels of industry in the shape of interest. Not one in one hundred of the people ever gets a dollar of it, but every individual excepting only the bond-holder is subject to the injury caused by its withdrawal.

It is true that any plan for paying off the public debt is measurably open to the same objection, since taxation is always capital withdrawn from business. For that reason, we must make it as light as possible, consistently with the end to be accomplished. There is room for dispute as to the rapidity of payment, but none as to the principle on which the scale is founded.

Taxation means the withdrawal of capital from labor and commerce

At no point of our examination can it be made more sensibly manifest than in the contemplation of the foregoing table, that the true meaning of taxation is—*the withdrawal of capital from labor and commerce;* and also, that this is the only occasion and manner in which capital is so withdrawn, through all the processes of organizing and administering the public debt.

When the people pay in a loan to the Government, they receive, immediately, a perfect com-

mercial equivalent. They simply exchange their own funds for funds of another kind, which are created by the Government. But when it comes to liquidating the loans, they take capital out of their business, and give it in the shape of taxation, without getting in return any equivalent whatever.

A plain example will show how much greater the financial strength of a country must be with liquidation spread over a long term, than when it is concentrated on a short term.

Profits of production must pay the debt.

A late secretary of the Treasury estimated the net profits on the production of the United States in 1860 at four hundred million of dollars. Without considering any increase of profits, if we allow twenty-eight years only for the extinction of twenty-seven hundred million of debt, payment must be extracted from eleven thousand two hundred million of profits; if we allow one hundred and forty-two years, the payment would be assessed on fifty-seven thousand million. In the former case, the average payment would be one hundred million a year; in the latter eighteen million. But what is of much greater consequence, is, that the continuously heavy strain of taxation in the short term would work adversely by the discouragement of industry and the arrest of development, while the lighter strain during the long term would oppose no material resistance to the accumulative force of enterprise and labor.

Finally, as against liquidation concentrated on

Necessity of fixed laws to govern liquidation

a short period, and in favor of the longer term we ought to choose that method and time which admit of the whole process being reduced to absolute certainty, as nearly as is possible. And this for many reasons. The preservation of the public credit is too important a matter to be left to the changeable discretion of a Secretary or a bureau. It bears directly and constantly on the general interests of the people. By good management, those interests are allowed, and even assisted to prosper, in spite of the heavy taxes laid upon them ; by bad management they are injured, and their ability to support the taxes correspondingly reduced. The management ought therefore to be vested in law, and not in any changeable authority. The succession of one Secretary to another ought not to involve any change of policy.

Political power passing from one party to another, should still leave the volume of the public finances to flow on in its undeviating channels.

The one man power unsafe in finance.

The creditors of the Government are entitled to be placed above all those agitations, apprehensions, and alarms, which are inseparable from a management vested in the discretion of a single person, who may be swayed by ignorant or bad counsels. No surer cause of disaffection and of violent political passions could be set in action than to make the income of the public creditors uncertain, and in no other way could the public credit itself be so seriously impaired. A new

loan under such circumstances, however great the emergency, could not be obtained except on terms that would sink the national credit still lower, and be a disgrace to the Government.

But the attempt would be futile, to apply fixed laws to a scale of liquidation that is threatened with rupture every hour by its own inherent violence. Any emergencies, such as failure of crops, pestilence, or war, requiring more than the people are able to pay from their annual resources, would bring the law into contempt and the public credit to disgrace. A natural feud would spring up between the taxpayers and the creditors. Any attempt to distrain for the taxes would excite popular resistance.

Fixed laws impossible with the plan of the Secretary;

There can never be any doubt of the issue of a strife involving the means of subsistence for millions of people. The merits of the ameliorated scale of liquidation are these: that it brings the debt clearly and positively within the resources of the country while taxing those resources at the lowest that will effect such purpose; that it leaves so large a part of the annual resources in reserve that no emergencies can interrupt the payment of the interest; and that from the very beginning of the process, the taxes grow lighter by the relative increase and accumulation of the resources. To such a system as this, fixed laws may be applied, with the certainty that they will not be broken; and we should get rid of all those anxieties and perils described in previous sections, which must exist so long as the vast power

while they are entirely practicable on the gradual scale.

of the treasury is lodged in the secret discretion of one or more agents and that discretion is liable to be influenced by every change of political parties in the government.

Absurd notions about one generation having no right to impose debts on another.

There is a trite saying that "one generation has no right to contract debts for another generation to pay." The inherent triflingness of the proposition might save it from criticism, if it had not been seriously put forth in three or more successive official reports of the Treasury department as a maxim of policy to justify intense taxation on a short period in preference to lighter taxation on a longer period.

It might be better said that one generation has no right to transmit to another a cause of war which creates debt; or, that the people of a country have no right to defend themselves against subjugation by a foreign enemy, if they have not ready money in hand to pay all the costs of such defence. It would be quite as reasonable to allege that a man has no right to buy grain on credit wherewith to sow his land if he cannot get it otherwise than by encumbering his son with an obligation to pay back the seed out of the forty-fold harvest which he may reap from it.

Impossible to separate one generation from another.

The term "generation" marks no definite period in the succession of multitudes. The child born to day belongs to the "next generation." All minors who had no voice in the elections during the war, belong to the "next generation." The "present generation" loses a thousand lives a week in New York and Brooklyn. If thirty

years be assumed as the term of a generation, by far the greater part of the living, active men of to-day will be in their graves before it is half over, and their places will be supplied by their children, and by the yet unborn.

The debt not chargeable to the present generation; but to the British Government.

In the common acceptation, it is true only in a very literal and narrow sense that the debt contracted to put down the rebellion is a debt of the present time. The original cause of it was planted on the continent by Great Britain, and became so deeply rooted before the colonies achieved their independence that it could not be eradicated in the formation of the new government. The present period inherited the country with that cause vastly strengthened, and suspended over it like an avalanche. Upon us has fallen the task of arresting the avalanche in its descent, and clearing from the path of the future its threatening mischief. To allege that the cost of it may not justly be distributed over the future is equivalent to an assertion that the people at the head of a valley who might turn aside a torrent by thrusting their gathered wheat-stacks into the gorge would have no right to expect any relief from the fields which they had protected against inundation.

Property a common right when the State is threatened.

In proportion as the life of a state is endangered, property becomes a common right; and the part that is saved ought justly to compensate for that which has been spent to save it. The principle of salvage, as recognized in maritime practice, loses none of its force in application to

cases of common defence, and is not vitiated by the death of owners.

The following paragraph will be found on page 16 of Mr. McCulloch's Report for 1865:

Mr McCulloch's rule of liquidation

"As all true men desire to leave to their heirs unincumbered estates, so should it be the ambition of the people of the United States to relieve their descendants of this national mortgage. We need not be anxious that future generations shall share the burden with us. Wars are not at an end, and posterity will have enough to do to take care of the debts of their own creation."

Posterity gets the whole country for nothing.

It will promptly occur to every one capable of reflection, that "posterity" will inherit all the accumulations of the past, without ever having lifted a finger to create them. The knowledge, the institutions, the improvements, the labor-saving machinery, the cities ready built and furnished, the coal and iron mines developed, the railways in operation, the harbors defended by forts, rivers made navigable—all these, and finally the education that qualifies men to carry forward the great scene of our national life, descend to "posterity" as a clear gift from the present to the future.

The sentiment totally false.

Since it is with the multitude and consequently with nations of men as it is with individuals, that wealth inherited breeds indolence, luxury and enervation, and that the happiest people are they whose porridge is salted by sweat of brow, we may question whether the bequest of the honorable Secretary might not prove a curse

instead of a blessing. There is much falseness mixed with the plausibility of his statement. The present is always too full of labors and hardships to cultivate any sentiment of gratitude for the succession which comes to it by necessity. In sober truth, the great body of the wealth of a generation in the United States, is acquired by the enterprise of its instant possessors much more than by inheritance; and it is to this condition that the nation owes its chief prosperity.

No cause for anxiety on account of the future.

But the Secretary shows us on a subsequent page of the same report, (25) that the burden of our present debt, if transmitted to "posterity" without any reduction whatever, would be so light, and so easily discharged, that we may dispense with all anxiety concerning it. He shows us that the rate of taxation for two hundred million annual appropriation to the extinction of the debt, will be less than three per cent. of the yearly product of 1870; that this rate will be reduced to one and a quarter of one per cent. in 1880; to less than two-thirds of one per cent. in 1890; and to about one-third ef one per cent. in 1900.

Imaginary address of the future to the present.

In view of this presentment, we might fancy "posterity" speaking to the "makers and builders" of its estate in the following strain:

"You, who in your time, sacrificed your best blood and all the blessings of peace to save us from calamity, and then repaired all the desolations of war, to bestow on us a richer bequest than one generation ever before left to another—do not oppress your laborers with taxation to

discharge the debt which came to you from prior ages, but leave it to us, 'our heirs and assigns forever.'"

Error of the Secretary's estimate.

But the Secretary commits a great error in casting the percentage required by his scale on the whole yearly product, as a measure of the burden which it would devolve on the country. He begs the material point in issue, by assuming that product to increase as rapidly under oppressive rates of taxation, as it would under the lighter rates. In effect, he dismisses from his calculation, entirely, the effect of high taxation on productive labors.

How the management of the Treasury may hinder liquidation

The manner of conducting the affairs of the Treasury Department has always exerted a great influence over the money market, and through that over the general interests and employments of the country. These affairs have acquired such weight that they may either assist or embarrass the process of liquidation.

The action of the Independent Treasury.

Before the Independent Treasury was established, the public funds were deposited in designated state banks, where they became a part of the common basis of loans for commercial purposes. It was then a subject of complaint that the expansion and contraction of this basis disturbed the balance of affairs—at one time enlarging credit and promoting speculation, at another compressing it and causing panic. The question was asked—what propriety was there in allowing the Government funds to be used by commerce? It was moreover declared dangerous to trust those funds in the custody of institutions

whose interest it was to keep their means fully engaged in the risks of trade, and which therefore might not be able to meet promptly the Government checks.

Pet Banks favored.

Another cause of complaint was that the Treasury Department had its "pet banks" to favor by deposits, and again its choice of "pets" to favor by not drawing on them for funds until the others were exhausted. Political influences ruled almost supremely in the administration of the Treasury. The party in power, its heads of bureaus, its prominent leaders in and out of Congress, its associated State cliques, had the "farming" of the public funds, and the interest upon them was shared directly and in dividends by an immense number of people. The amount of patronage exerted by the department was prodigious and corrupt. It might govern elections by a concentration of influence on particular localities where overwhelming majorities could be bought for one day. The patronage passed round from place to place, from institution to institution, from leader to leader, from one section of the party to another. The same fund was rolled like a cask of liquor with "free spout" through the ranks of a vast army of voters, and the supply was kept in perpetual flow from the pockets of the people, through the custom-houses. No man with a coat on his back but contributed to the fountain.

Patronage of the Treasury.

It is incredible what a power of patronage may be maintained by a fund of moderate amount transferred from place to place. The expectance or promise of it is hardly less effective than its

possession. To be among those who will have it in rotation is a privilege of no trifling value.—If all this embarrassment and mischief could be brought about by the management of the revenues and expenditures when they did not exceed seventy million of dollars a year, and when the balances on hand at any one time were not over twenty million, what may we not fear with a revenue five times as large and current balances of over one hundred and thirty million?

The same action repeated;

The present management of the Treasury begins already to repeat the methods and mischiefs that the Independent Treasury was designed to correct. Not unfrequently we see an announcement that another of the national banks has been added to the list of depositories of the public funds. To suppose that there is no competition for the custody of these funds, that no influence of important persons is exerted to obtain them, and that nothing is paid as a consideration for such services, is to place human nature higher than its desert in the scale of morality. There is then but one conclusion that we can arrive at, viz.: that the method of management which admits of such abuses ought not to exist a single day, if another can be devised which will afford protection against them.

and unavoidable on the present plan.

All the evils described in the foregoing section must be quickened and aggravated, in proportion to the rapidity of liquidation; for rapidity of liquidation means high taxation, and high taxation accumulates heavy balances in the Treasury.

Secretary McCulloch is himself sensibly alive to the perils of the case. In speaking of the debt, he says "Its influences are anti-republican. It adds to the power of the Executive by increasing the Federal patronage. It is dangerous to the public virtue because it involves the collection and disbursement of vast sums of money, and renders rigid national economy almost impracticable." (Report for 1865, p. 16.)

The balances in the Treasury.

But collection and disbursement on a large scale must necessarily go on. The amount of annual revenue required to pay the ordinary expenses of the Government, and to carry liquidation forward, can hardly fall below three hundred million for a number of years to come. This vast sum is to be handled in the collection and again handled in the disbursements, which makes six hundred million a year to be passed through the accounts of the Treasury Department. Its balances are to rest in transit with the favored depositories, forming in our large cities, funds for speculation on the stock exchange, to tempt and involve with them the funds of commerce, to sharpen the appetite for gambling, and to demoralize the markets. If we may take the balances which have been recently maintained in the Treasury as our guide, we may estimate the permanent capital that will be devoted to this business at from one hundred and fifty to two hundred million of dollars; for to the regular balances of the Treasury must be added the current accumulations in the hands of the tax-receivers, and innumerable branch funds such as are

always connected with a great financial system. The extent of dealings that this capital is capable of supporting may be vaguely estimated at ten times its face—that is, at two thousand million of dollars, a margin only of ten per cent. being necessary to carry "an operation."

They are used for gambling.

What then is this method? It is neither more nor less than scraping over the whole surface of labor, industry and lawful trade, to amass an immense fund for the use of speculators and gamblers; injuring every legitimate business not merely to the extent of the capital permanently withheld from productive uses, but to the general corruption of the morals of society. In this action, the government is an agent for getting the money of the people to injure the people. And the fact is particularly deserving of notice that the fund is permanent, not transient or incidental; for there is a natural motive created by its own force and influence to maintain its level, which is, to maintain its profits. If the supply falls off, the disbursements will be arrested, as surely as human passions govern human nature. The words of the Secretary of the Treasury are not too emphatic: "It (the financial system) is dangerous to the public virtue, * * and renders rigid national economy almost impracticable."

The purchase of bonds by the Secretary of the Treasury.

The purchase of the public bonds by the Treasury Department is the function that would most directly surround it with the practices of corruption.

Under the law as it now stands, the Secretary himself would be the gigantic stockdealer of the

world, and his bureau the carcass to attract vultures from every part of it. During the first year of the liquidation he would be obliged to purchase thirty-eight million in bonds; forty million in the second year; forty-three million in the third, and so forth, increasing in arithmetical progression. In the tenth year the amount would reach sixty-four million; in the eighteenth year it would exceed one hundred million, and in the twenty-eighth, it would approach near the double of that sum.

The same. A Secretary of the Treasury holding office for the first term of four years under this scale would be the purchaser of one hundred and sixty-six million of bonds; and if he should retain his place for a second term, of three hundred and seventy-six million. His successor would be obliged to redeem near six hundred million in a term of eight years; and, in the following term, the amount would rise to near a thousand million.

The Treasury "cornered" by itself. The purchase would be compulsory on the part of the Secretary. He dare not stop, because the accumulation of funds in the Treasury would paralyze all the markets. The jobbers would assail him on every side. He would doubtless find it easier to be their victim than to defeat their combinations. Nor might he successfully oppose his scruples or his oath to the importunities of the men who placed him in his office. He could not feel secure of the incorruptibility of his numerous subordinates. And what would a seat in Congress be worth, with its privilege of access to the private closets of his bureau? Nay, what

merits in a candidate for the Presidency would outweigh the pledges of an open ear to the members of a nominating convention? Cabinet ministers, judges, and senators are made of the same mould as other men. All the sources of power and of legislation would be assailed by the vast bribe. Instead of deliberation and study over the interests of the country, schemes and plots and intrigues would be the prevailing fashion.

How all the foregoing evils may be avoided.

All the abuses and dangers growing out of the accumulation of heavy balances in the Treasury may be avoided under the system of gradual liquidation. As the money accrues, it should be applied immediately to the purchase of bonds in open market. Not a single million ought to be kept on hand. The constant application of the collections in this manner would restore to trade and industry the capital withdrawn by taxation, and save interest, while at no time would the purchases be large enough to affect the quotations of the market, or to tempt the formation of cliques to extort an undue price from the Government. The annual report of the Secretary ought to contain a statement of the purchases with the date thereof, and it would then be discoverable by comparison with the public sales, if any officer of the Treasury Department derived profit from the transaction.

The market at the choice of the Secretary.

Another advantage of the gradual method is, that the Secretary would always be a voluntary, and never a forced purchaser, as he must neces

sarily be under the concentrated scale. This is a matter of the first importance. It puts the market at the choice of the Secretary, instead of putting him at the mercy of the market; and as the process will finally include the purchase of the whole twenty-seven hundred million of national bonds, it may readily be conceived that a great saving wiil be the result.

The gradual plan of liquidation could not be carried into complete effect without an entire reorganization of the debt. Mr. McCulloch says in his Report for 1865, p. 22:

"When the whole debt shall be put in such a form that the interest only can be demanded until the Government shall be in a condition to pay the principal, it can be easily managed."

Interminable securities become necessary.

This is doubtless correct; but the plan of the Honorable Secretary, so far as it contemplates the refunding of the debt for a specific term of years, does not accord with it. The only way to secure this result is, to adopt the system of interminable securities, and to consolidate all the different kinds in one rate. This would get rid of the necessity of refunding, which would be sure to come, in case of war or some other contingencies from which no great State was ever exempt. Refunding is a needless expense, to say no more. All capitalists would be better satisfied with an interminable bond than with one made payable at a certain time, and yet not sure to be redeemed at that time.

The feature of interminability in the bond is necessary to the operation of the gradual scale of redemption.

The prize of political ascendancy.

It is one of the dangers most to be feared—more than that of war, and of worse augury for the perpetuity of republican government, that so tempting a prize as the discretionary management of our national revenue is offered once every four years to the party that may prevail in the elections. For the term including the eight years at the end of Mr. McCulloch's scale, that prize is the business of purchasing more than twelve hundred million of the public bonds, in addition to all the official patronage of the Government.

The government interfering in the elections.

It is well known that the practice of candidates is to pledge in advance, contingently on success, every office and immunity that exists or may be created, and that the same place is generally pledged to many different clients. We have seen national elections carried by this process, when the "spoils" to be distributed did not reach the tenth part of their present magnitude.

A late letter written by the Hon. Gideon Wells, Secretary of the Navy, in answer to the request of a displaced officer of the government to be informed whether his removal was for cause, unblushingly announced it as the policy of the Executive to retain in office those only whose opinions are in accord with the administration.

The President announces the rule of proscription for difference of opinion

This is, in fact, nothing less than a promulgation by the President of the United States, in his official capacity, of the most corrupting and infamous appeal ever put forth by a political party in any country—"to the victors belong the spoils." When we see it openly assumed by the chief officers of the Government, it cannot be

deemed an unnecessary precaution to provide by special law for the administration of the revenue, and to leave as small a remainder as possible to the uses of bribery.

Private fortunes stolen from the Treasury.

The history of our public finances during the rebellion will not justify any abatement of the foregoing picture of evils to be apprehended in connection with such a large and impetuous volume of affairs as must necessarily attend the plan of liquidation proposed by Mr. McCulloch. It is true our Treasury managers were inexperienced, their labors were great and spread over a territory so wide that it was extremely difficult to exert an effective control over them. The expenditures might be expected to exceed somewhat their just limits, and liberal allowance ought to be made for losses and disasters; but their total swelled to proportions unexampled in the history of war. Thousands of persons, the reputable as well as the bad, including officers of every rank both in civil and military life, and in all branches of the Government, legislative, judicial, and executive, are known to have acquired immense fortunes, exceeding by twenty or fifty times the legitimate rewards of their service. Heads of bureaus, cabinet ministers and their relatives, generals, quartermasters, commissaries, stock-dealers and contractors, who before the war possessed next to nothing, are now in the enjoyment of incomes which may without exaggeration be described as princely. It is a fitting climax to this scandalous record that the impunity of the most infamous peculators is guarantied by the complicity of men who are held in

high esteem in every circle of society; and that at least a fourth of our entire national debt has been made up by fraud and embezzlement.

The chief advantages of the gradual scale of liquidation are:

Gradual liquidation reduces the taxes;

1. It starts with an immediate reduction of the direct taxes from three hundred and fifty-seven millions of dollars to one hundred and seventy-two millions, or to less than one half of their present amount.

allows the resources to grow;

2. It organizes a system of taxation by which the rates diminish inversely as the ability of the people to pay them increases, so that the sensible burden of the debt must become lighter year by year; and it secures a continuous process of reduction in the amount of taxes, by given terms, until the whole debt is extinguished.

reduces the volume of the finances;

3. It reduces the volume of the public finances to its most manageable and most economical proportions, in which it becomes intelligible to the people, and controllable by them. In its lowest practicable dimensions, this volume is a vast weight and power, which by unwise or improper use, may cause the most injurious disturbance to commerce, and consequently to all productive and industrial labors. The greater therefore is the necessity of directing it by a settled system, instead of leaving it open to be handled by political majorities—or what is worse, by the executive officers of the Government.

makes the process intelligible;

4. By this scale, the people can always follow and understand the progress of liquidation. If the taxes do not steadily diminish, it will be because of *some new debt* brought about by

extravagance or mismanagement. While the nation is at peace, there can be no justifiable increase of debt, under this system, without the approval and participation of the people.

5. It limits the entire direct taxation of the country to provision for a specific purpose. The ordinary expenditures of the Government being supplied by import duties, it practically prohibits any increase of the taxes for other pur poses. **limits taxation to specific purposes;**

6. It withdraws from production and industry of our bond currency capital, year by year, so small a proportion of the whole, that the substitution of other capital may go on insensibly, or, otherwise, the markets will gradually adjust themselves to the diminution without any speculative influence on prices, and without prejudice to the general interests of the country. **does not withdraw capital injuriously;**

7. It shuts off all jobbing in the public securities by the officers of the Government; and may be so conducted as to do away entirely with the accumulation and retention of heavy balances in the Treasury. **shuts off jobbing, &c.;**

8. It assures the uninterrupted payment of the interest on the public bonds, under all circumstances. The yearly reserves allowed by this scale, will be sufficient to meet the extraordinary expenditures of war, even if they should equal those of the rebellion, without trenching on the specific revenue which it provides for the interest. **makes the payment of the yearly interest certain;**

9. It would give such a character of commercial stability to the bonds as to cause them to approximate to the standard of gold, and would thus by the great weight of the mass of them in **improves the credit of the bonds;**

our financial system, push it rapidly towards the condition of specie payments. For the same reason the mass of the bonds, composing so large a proportion of the general credit, would act as a balance to the system, and moderate, if not prevent in a great measure, those extreme agitations of the market which not unfrequently terminate in panic.

reduces the executive patronage; 10. It would reduce the executive patronage much below its present proportions, and by so doing set bounds to the most fruitful source of political corruption connected with the Government. It would disband a formidable army of assessors, collectors, clerks, agents and detective officers; abate felonies and law-suits; abolish thousands of sinecures, and narrow the field of peculation.

takes the finances out of the power of politicians; 11. It would take the debt out of the power of party majorities in Congress, and put at rest the fears of capitalists as to any changes in the rate of interest or otherwise, that might lessen the value of their investment. In a word, it would give a fixed and permanent organization to the debt, instead of the loose, transient, and conditional features by which it is now characterized.

and clears away the obscurity of the debt. 12. Finally, it would bring the debt within the knowledge and the power of the people. The system of administering it, being established, and not subject to change, would gradually become familiar to the popular mind. All the obscurity and difficulty that now surround it would vanish. The people would see and feel the great burden every day, growing less and less. If the process should stop, if a single one of the annual steps of

reduction should fail, their vigilance would detect it. They could not be deceived by a mass of figures, nor by stories about the "public necessity" or the "public honor"; for they themselves would be the judges of the one and the keepers of the other. But with the administration of the debt as it now is, regulated by no system, having no settled rules, at the mercy of politicians or of lazy dignitaries too old to learn, and too conceited to believe it possible that they can ever go wrong, no vigilance of the people can save the country from perpetual broils in finance, from distress at all the centres of capital, from panic and shocks of insolvency.

Plan of the Sinking Fund.

The plan of liquidation known as a "Sinking Fund," and which yet has some advocates in the United States, was formerly held in high esteem; but it has a very small power of useful application. The only service it can render is to unite in one sum the residues of other funds which are separately too trifling for a productive investment; and which, if left at loose ends might be stolen or squandered.

How it has failed.

Nothing is more extraordinary in financial history than the delusion which long possessed the minds of some leading statesmen and economists in Europe with respect to the capacities of the "Sinking Fund." They seemed to believe that there was some peculiar virtue of increase in a sum of remainders that did not belong to an original total of the same amount—that it could be made to grow by compound interest, and in

some marvellous way far outstrip the ordinary steps of accumulation. But these dreams were never realized. In the first place there could be no increase beyond simple interest. In the second place that increase was impaired by just the expenses necessary to manage the fund. In the third place the fund being in hand when a pressing contingency arose, it was easier to appropriate it than to raise a new loan. Nothing could guarantee it against such diversion, because the legislature might repeal as well as enact laws.

The British Sinking Fund;

The successive "Sinking Funds" organized to extinguish the British debt were completely nullified by these contingencies. They not only failed of their object, but were turned to increase the debt, being seized to carry on wars which would have been discouraged and might have been prevented, if no such fund had existed, and if new taxes or loans had been required to conduct them.

and why it was abandoned.

The absurdity of taxing the people to raise a fund which could not be invested at more than simple interest, loading it with commissions, salaries, rent, printing, and so forth, and then looking for something mighty to grow out of it, was finally recognized, and the British parliament finished the experiment by declaring that "for the future the amount of the Sinking Fund should be the actual surplus of the revenue above expenditure." This reduced the measure to its proper service of combining unfruitful remainders, saving them from dispersion, and getting a little interest out of them, which otherwise would be lost.

Complete delusion of the Sinking Fund as a measure of liquidation.

We ought to be instructed by the fact that the only "sinking" ever accomplished by the Sinking Fund of the British treasury was the sinking of British credit. As a measure of liquidation it is a complete delusion. Besides the expenses of conducting it, and the chances of its diversion, it invites needless or larger appropriations. Every dollar in its keeping yields less interest than a dollar in private hands, and the general economy suffers in proportion. It would add another bureau to our Treasury department, and a very unnecessary complication to the accounts. On the theory of its advocates, the first step required to give it efficiency, is to increase the taxation to something more than the interest on the debt; and this is to be carried on from year to year, and with every other addition, invested in some productive securities. It is not to be presumed that any other securities than those of the government would be selected for such investment, and these must be purchased at the market rate. The farce is too transparent to need further exposure. It resolves itself into borrowing money to pay borrowed money, and increasing the debt by the amount of expenses incurred for the transaction of the business. Besides, in practice, it is nothing less than the sequestration of capital from employments where its profits are those of productive labor, manufacturing, and material development generally, and putting it where it cannot possibly earn so much net as simple interest. If there is any profit in a Sinking Fund as a measure of liquidation, it would be profitable to organize another Sinking Fund to help the Sinking Fund.

The first rule of economy.

The first rule of practical economy in the appliance of means or power to any purpose, is, to expend no more of either than is necessary to accomplish it. To expend more, is waste, or injury, because whatever excess there is, in any case, might be applied to do something additional, which, left undone would be a loss. So simple a rule as this commands immediate and universal assent. It is in effect, but a repetition of that on which the gradual scale of liquidation is based.

Action of the constant.

The action of the constant of payment assumed, viz., ten million of dollars, accomplishes the purpose of redeeming our national debt; and although a smaller amount would answer, it would take a longer time, and seem inefficient. The people do not desire that the process of payment shall lag, but that it shall go on by steps which they can appreciate; and since the constant of ten million secures this result, any greater sum would be an unnecessary draft on their means.

Reserved rights against taxation.

This argument appeals to a common sentiment in the human mind founded on the perception of individual and social rights. The government is authorized to take from the individual what is needful for the common good. Each then has a positive right adverse to the other. From this proposition follow the most important conclusions. It becomes the duty of the individual to pay a necessary tax, but it is a social right to resist an unnecessary tax. What is necessary, in the connection, is just; and hence the payment of a necessary tax is a moral as well as a civil

act. No honest man will attempt to evade it. But the obligation becomes less binding, and loses its moral character, in proportion as the tax exceeds necessity and grows to be oppressive; and this is a source of the sentiment of repudiation, which, far from being the fruit of ignorance only, or a mere atrocity, has its roots in the natural soil of the mind among profound ideas of justice and moral right. We have but to point to England, and to all the great continental nations of Europe whose debts are confessedly irredeemable, and where repudiation as a fact has reached such proportions that it governs finance and economy, and is the acknowledged state policy—we have but to point to the example afforded by these countries, to justify our fears of the consequences of maintaining the present volume of taxation, which, as we have shown, is about double the necessary requirement for the extinction of the public debt; and to justify also a warning to the country, that there is a serious danger connected with this subject, in spite of all the boastings of inexhaustible resources so confidently put forth in the successive reports of the Treasury Department.

The great debts of Europe actually repudiated.

The elementary idea of the "Funding System," by which, in its proper use, immeasurable advantages are secured to the people, is nothing less than repudiation. It is an agreement to put off indefinitely the extinction of the principal of a debt on condition of paying the interest only. In the example of Great Britain and other countries, in all of which it was doubtless the inten-

The Funding System contains the idea of repudiation

tion at the time of contracting debt to redeem it honorably, repudiation has followed on the mere continuance of the agreement without any change whatever in its nature.* The germ of repudiation is therefore natural to the case; and the full development of it may be a matter, either of such contingencies as have befallen Great Britain, as frequent wars, and the necessity of costly military establishments at all times, or simply of mismanagement in the finances.

Abundant resources no guarantee against perpetual taxation.

In the material resources, only, of a country there is no certain security against repudiation; or against *perpetual taxation*, which is the same thing. However large, they may be diverted or dissipated. Plenty fosters extravagance and invites plunder, in public even more than in private affairs. The history of national debts shows that they have increased most rapidly on superabundant resources, while they have been restrained by scant or uncertain incomes—for reasons plain enough: credit is easily obtained in the one case, and sure to be denied in the other.

Repudiation a natural right of society under some circumstances.

Repudiation of debt, is therefore not so impossible, that we are justified in treating it with contempt. It is not, *per se*, as it has been generally characterized, under all circumstances, an extrinsic, unnatural and totally unjust measure, indicative of a low state of public morals, or of that social anarchy which precedes national dissolu-

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* Adam Smith says (1776)—"the enormous debts which oppress, and will in the long run probably ruin all the great nations of Europe," &c. The debt of Great Britain was at that time less than one-sixth of its present amount.

tion. It may, on the contrary, be a proof of social vigor—an evidence of the sense of individual right in the popular mind—an assertion of the claims of labor against a system of grinding oppression, such as the workingman of Great Britain is subject to in the present day, and which it is considered highly patriotic to resist.*

Popular rights never lapse.

It is the theory of government in the United States that the people never lose the right of repairing their own grievances; and it is of no consequence whether these consist in the direct sway of usurped power, or in any other kind of public outrage. Of all injuries that a government can inflict on the people, the oppression of labor by excessive taxation is the most vexatious, the hardest to be borne, and the surest to excite the passions of a multitude to blind fanaticism.

State and other local debts an additional reason for relaxing taxation.

There is sufficient reason why the Federal government should remit the rigor of taxation, in the fact that our national debt is only a part, and perhaps, not the larger part of the whole mass of debt on which the people are obliged to pay taxes. The several states have their debts, and likewise the smaller municipalities. All our chief cities and towns, where wealth and property

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* The Hon. Thomas Hughes, M. P., in a letter to the *New York Tribune*, published October 17, 1866, describes a new system of partnership labor adopted by Messrs. Briggs & Son, large coal owners in Yorkshire, Eng., which gives the workmen a share of the profits The mines had been very unprofitable; but the first year of the co-operative plan yielded such good results as to re-establish the investment. Mr. Hughes adds—"I have long been convinced that England had to solve this labor problem in this generation, or go down; and after many breakdowns in past years, I do believe she is at last in the right groove and the right humor. It is not a moment too soon. I only pray that it may not be even now too late."

most accumulate, and where the national tax falls heaviest, have their local debts. The expenses of cities like New York, Philadelphia, Boston, Cincinnati, Baltimore and many others, are much increased by being made the headquarters of the convict classes of the whole country. They are centres of vast works, the benefit of which spreads far beyond their own limits; of educational institutions, and of a thousand shapes of endowment for the common good. The injury sustained by them from excessive taxation is a general injury.

Present rates not collectible in the South.

But in the Southern states especially, where the waste of war is to be repaired, where the great labors of the people have been interrupted for the six last years, and where all kinds of industry have been well nigh destroyed, it would be a mere farce to attempt the collection of the present rates.

Inequality of taxation, &c.

It is to be observed, also, that a very unequal share of the common burden must be borne by the North, until the South recovers her normal powers of production. We may presume that ten years, at least, will pass before this desirable result can be attained. The scale of Mr. McCulloch requires that five hundred million of capital shall be withdrawn from employment within that period and applied to the extinction of the debt, while the gradual scale demands that but one hundred and thirty-two million of dollars shall be withdrawn in the same time.

Necessary to abolish the Independent Treasury.

To get rid of the evils and economical mischiefs of keeping large balances on hand, it will

be necessary to abandon the "Independent Treasury" scheme of management. The purchase of bonds as proposed under the gradual plan of liquidation would dispose of more than half the accumulations; and since the National banks have been made legal depositories of the government funds, there is no reason why the current disbursements should not be effected by their agency.

The "Independent Treasury" aggravates every disadvantage of the public debt, increases the expenses, gives no special security to custody of the funds, is a vast lever of political corruption, a perpetual threat over the markets, and a violation of the first principles of economy. The object of it was to take the government deposits out of the local banks, where they were deemed unsafe, and where they were loaned to commerce, and to lock them up in vaults where they could not be got at by theives, and where they would benefit nobody. It was designed to enforce a complete separation of the funds of the government from the funds of commerce. It was then made illegal to deposit any of the public moneys in the banks. But since the banks are now constituted legal depositories of the government, the "Independent Treasury" ceases to be a necessity, and the only thing that could ever be said in its defence, is thereby nullified.

It aggravates the evils of debt.

In order clearly to understand the injurious action of this system of finance, we must remember that *taxation is the only legal process by which capital is ever abstracted from the commerce and labors of the country.* It is surely

Taxation displaces capital.

enough that the citizen must part with his capital. There is no justice in the government interposing a method of business by which he is kept out of it for an unnecessary time. On the contrary, it ought to prefer that by which it would be most speedily returned to him. The "Independent Treasury" is purely a method of sequestration by which capital is restrained from production. It is a restoration of the practice of money dealers centuries ago, when society was a nest of robbers and a strong box the only safe depository of private wealth, and when there was no development of commerce. In its origin it was a political expedient, without the pretension of being founded on any law of things.

"Every tax," says Adam Smith—and the economists of all countries agree with him—"Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the State."

The Independent Treasury a consumer of capital.

But the "Independent Treasury" is contrived for just the opposite purpose. It takes the capital out of the pockets of the people and locks it up. It keeps continuously locked up many millions of capital. The accumulations have lately reached an indefinite range of from one to two hundred million of dollars.*

The public bonds the pro treasury.

The particular pertinency of this enquiry to our general purpose consists in this: that with

* It is nothing to the purpose to allege any theories of the consequences of selling the gold which now accrues from customs. The present treasury practice is founded on accident and on contestable views of expediency.

interminable securities and the gradual scale of liquidation which we have proposed, those securities themselves become practically the depository of the government balances, and by proper registry of the purchases the last possibility of loss by theft or malversation of any kind, is effectually shut off. The consequence must be, that taxation will then be reduced to its lightest bearings, because there is no sequestration of capital from the labors of the people, except in its mere transit through the accounts.

The Independent Treasury oppresses labor.

The favor with which the "Independent Treasury" is regarded, is mostly a political prejudice, or the expression of distrust and hatred of banks. Some of it is due to a want of information of its practical bearings, and a good deal to the fact that it is supposed to have "answered a wholesome end" for fifteen years past. During that fifteen years, the financial liabilities of the country have been so small as to require but trifling balances in the treasury; and the government collected no taxes. Now, and hereafter, its liabilities will be necessarily great, and taxes must be collected to the amount of hundreds of millions annually, involving a ceaseless drain of capital from the pockets of the people. This method must therefore become, if persisted in, a grinding oppression to the poor through an aggravation of the evils consequent on high taxes.

The very ground on which the "Independent Treasury" was chiefly established—viz., that the use of the government funds for commercial purposes, by the agency of the banks, contributed to inflate credit, itself contains the foregoing argu-

ment. If they did so, then the sequestration of them restrained credit by withdrawing capital. Hence arises a series of questions the full examination of which would lead us too far from our main subject, and which we shall simply open for the sake of their indication.

What are government funds and what is money? What are "the government funds?" Are they not the funds of commerce and labor? Is not the right to them inalienable from those who produce everything that makes them of any value? What is "the government" that it should lay its hands on this instrument of all work from that of the hodman to that of the ship-owner, wrest it away, and keep it abstracted and stagnated in vaults? Is not "the government" the people? Has it any separate entity of its own, distinct, and adverse to the people? Is it not the servant of the people, and "is the servant greater than the master?" And what is money? Does the mere power to take it give the right to keep it? Is it a thing of individual creation?

It is a common instrument. "Money is only yours," says a famous financier, "by the title which gives you the right of calling for it, and passing it through your hands, to satisfy your wants and your desires; beyond this, the use of it belongs to your fellow citizens, and you cannot frustrate them of it, without committing an injustice and a state crime."

Other absurdities of the Independent Treasury. The operation of the "Independent Treasury" is this: It holds in its chest one hundred million of capital taken out of use. If the labors of the country need this capital to give them their highest efficiency, then the abstraction of it is an injury to the general economy. If they do not need it,

then the disbursement of it lowers the rate of interest, encourages speculation, and swells credit.

Again, if the labors of the country are pinched for the want of the hundred million of withdrawn capital, the people supply it in some other form, and then the disbursement gives a surplus of capital which must either swell the volume of business or swell the prices of the market.

It sinks small labors.

In all these consequences, those who suffer most are the people of small means, and especially day-workers. Large incomes, like large ships, bear an additional burden without being sunk perceptibly deeper in the water, but small incomes, fixed salaries and wages, like small boats, are sunk under the water by a trifling increase of weight.

Repudiation of credit by the government.

A necessary corollary of the "Independent Treasury" system was that all public dues should be payable in coin, since there was no other currency but bank notes in which payment could be made; and the government could not take them in accumulation after deciding that the banks themselves were not trustworthy. This repudiation of credit was not attended by any sensible disadvantage to commerce in the limited volume of public finance prior to the war; but when the necessity for loans came, it made disaster inevitable. The Secretary of the Treasury found a law in his way, forbidding him to use the very instrument that he most wanted and could not do without—that to which the treasury was finally driven notwithstanding the law, but not until the consequences of its repudiation became so serious as

to make our very national existence, for a time, tremble in the balance. That instrument was the bank check which pays debts by transfer of account, and without the use of coin.

The Rule of commerce.

It is the grand rule of commerce, and especially of modern commerce, that the debits and credits being necessarily and precisely equal in the mass, offset each other, leaving only the profits, the losses, and the differences resulting from a redistribution of balances, to be adjusted by the payment of an additional and independent sum. This independent sum itself may be paid by a transfer check within the same market; but between different markets is paid either in coin or its equivalent.

Commerce is governed by natural law.

Such was the state of business when the war of the rebellion began. The system of commerce, including finance, was established according to laws which had been demonstrated for centuries, and which were *the laws of things*. It did not consist of mere expedients, instantly conceived in the brains of men. Our banking methods were doubtless imperfect, but they were the result of a system, and contained all the powers of commerce in the best shape that experience had been able to give them.

The prime instrument of commerce

The instrument, then, that was lying at the feet of the Honorable Secretary Chase, inviting his grasp—the instrument by which the war was to be conducted, was the most perfect of its kind that the world had seen. It was, in fact, not merely the bank check, not merely a method of finance in its special sense, but the rule of commerce, which includes both. What the managers

of the Treasury failed to understand was, that the business of supply and disbursement in war is, simply, commerce. The task required was only to continue what the country was then engaged in carrying on—production, manufactures, and transport.

The Treasury broke its own staff.

It ought to be esteemed an advantage when a great work is to be performed, that the means of performing it are at hand and fully organized. But the first steps of the Treasury were directed to the breaking up of those means and to the utter repudiation of the system of commerce by which the affairs of the country had been so successfully managed.

Drainage of coin in 1861.

The amount of gold and silver coin in the banks of New York was less than fifty million of dollars. This was the specie basis of transactions amounting to thirty million of dollars a day, continuously. The transactions of the Treasury did not then reach the one thirtieth part of the sum, and the highest daily expenditure of the war scarcely exceeded two million a day. Inasmuch as the exchanges of the Clearing House have since doubled in their volume, we are now able to perceive that their enlargement by the expenses of the war to the full measure of the emergency would not have been, of itself, a sufficient cause to involve the suspension of specie payments.

That calamity was brought about by the demand of the Treasury that the loans should be paid up in coin.

The first loan, of fifty million, was negotiated on the 19th of August, 1861.

The second loan, of fifty million, was negotiated on the 1st of October.

The third loan, of less than forty-six million, was negotiated on the 16th of November.

The strength of the old banks.

These loans were paid up gradually, a portion returning to the banks in the ordinary course of deposits. The recuperation of the banks, after paying up one hundred and forty-six million in coin, was remarkable. The date of the last loan was the 16th of November; yet the Clearing House books show that the specie which stood at forty-seven million in August when the first loan was demanded, was maintained at over forty-two millions in the early part of December, after the last loan was paid, or nearly so. A more satisfactory proof of the strength of the banking system could not be afforded.

The suspension of specie payments

On the 9th of December, the Secretary of the Treasury, in his official report (p. 8), congratulated himself on the general success of his financial management, as follows:

> "Upon this plan he hoped that the capital of the banking institutions and the capital of the people might be so combined with the credit of the government, in a proper provision for necessary expenditures, as to give efficiency to administrative action, whether civil or military, and competent support to public credit. The result thus far has fulfilled that hope."

The comment on this paragraph is, that the banks were forced to suspend specie payments in twenty days thereafter.

The history is briefly this:

was enforced by the government.

The gold paid in loans by the banks to the government began to be hoarded immediately on its disbursement. The recuperations consisted

in part of the gatherings in from the country of the coin still in circulation. When these were exhausted, there was no other source of supply, and the Treasury still stood at the bank counters with its inexorable demand for more coin. "Thirty million a month" was the requirement of the Secretary, and he would have nothing but coin.

Announcement of the National Bank Scheme.

It was at this point that the banks were forced into suspension. They had still in their vaults more than enough specie to meet all the wants of their business, which were in no degree urgent.

How far this unfortunate culmination was helped by the announcement of the Secretary of the Treasury of his "National Bank" scheme by which the State institutions were to be ruled out of existence, it is impossible to say. The Report containing the announcement was dated on the 9th of December, and the suspension followed on the 31st.

Independent Treasury the mother of mischief;

There can be no doubt, however, that the general and overruling cause of the suspension of specie payments was the law of 1846 establishing the "Independent Treasury," which declared gold and treasury notes the only legal currency of the government, and prohibited the deposit of public funds in the State banks. In effect, this was the repudiation of credit, and at the same time the repudiation of that rule of commerce already named, by which all the great affairs of the world are carried on. It must be granted therefore that the Secretary of the Treasury had a difficult task to achieve in the negotiation of loans, while the very ground of them, credit, was

repudiated by law. The government was in a most anomalous position, with no resource to save itself from destruction, but by the very thing it had for twenty years been attempting to destroy—credit.

its action arrested.

It would be unjust to hold the Secretary of the Treasury responsible for a policy established by law; but such an emergency as the rebellion must be allowed to set aside any particular law not vital to the nation, that stands in the way of maintaining the whole body of law and the nation itself. This precept was finally acted upon, and the "Independent Treasury" became for the time being a dead letter. We can only regret that the current of the Secretary's thoughts, instead of leading him to conjoin the national credit with that of the established banking system, which embodied all the powers of commerce, led him to put them in antagonism with each other and resulted in the injury of both; for to neither as yet does public opinion yield an unreserved confidence.

ADMINISTRATION OF THE TREASURY.

Before entering on any details of this branch of our subject, we shall bring together in one view and more specifically, at the risk of being chargeable with repetition, the practices of peculation on the public treasury. Personal knowledge not only justifies but commands this step. Any man who attempts to write on the national finances and fails to take it, fails either in the perception of his duty, or consciously in its discharge. He fails also to meet the popular expectation. The eyes of the people are too much, and too impudently offended by thieves in good position passing daily before them, not to appreciate the necessity of this exposure. Nor do we desire to conceal the motive that induces us to set it in a permanent place, in the library, or on the table of every man who may choose to possess it, that it may become as familiar as a household spirit testifying to a wrong and a crime against the nation, of the most atrocious character. That motive is to make a direct appeal to the common sense of justice, that the odium which attaches to the ignorant and the friendless may for the same actions be impartially extended to the informed and the popular.

Peculation on the Treasury.

It is notorious that during the whole period of the war, the gains of public employment far exceeded the salaries and compensations awarded

Fraud in supplies and contracts.

by law. The first examples of fortune-making at the public expense were among the relatives of cabinet ministers. Subordinates in office do not generally need encouragement to follow such examples when the moral right to arrest or rebuke them no longer exists in their superiors. The contagion spread rapidly among the heads of bureaus and was favored by an impetuous urgency which insisted on results with little respect to cost. Contracts were awarded with scarcely an appearance of decent examination. One set of men became suddenly rich by furnishing inferior blankets to the army at the price of the best; another by furnishing an inferior quality of cloth; another by the bad making-up of uniforms; another by bad leather, and another by the shoes badly made out of it. Large fortunes were realized on the supplies, which rarely were half as good as promised in the contract, and the same supplies were not unfrequently paid for more than once. Bread with worms in it, and putrid meats, were passed by inspectors who on all reasonable presumption were partners in the fraud. One class of villains got rich by adulterations of coffee and tea; another class put false brands on flour; another diluted the brandies which were necessary to keep the wounded alive while their limbs were amputated; and even the medicines for the sick were often of impure quality. This brazen knavery was practised by men in their counting-houses, deliberately, seated by warm fires, while our soldiers were freezing, famishing and dying in their winter camps. Those who engaged in it were seldom, if in any

case, of that class from which our prisons are recruited, but of those who enjoy good social repute, keep bank accounts, and are often steadiest in church attendance. It might have been known, and was, that they were getting rich faster than they had any right to, but they seemed to win the greater respect on that account, and from twinkling stars they came to be shining planets in their circles. In the branch of munitions, the spectacle was equally impressive. All the guns from the musket with its ounce ball to the yawning mouth that carried a projectile of five hundred pounds weight, brought vast fortunes to inventors, makers and inspectors. The inspectors were sometimes the inventors and a million or two of "greenbacks" gave the weapon a use in one direction if it failed in every other.

The prison class not guilty.

In the naval administration the frauds and blunders were of prodigious magnitude. In the first hours of our great trial exorbitant commissions were paid to ill-qualified persons over the heads of competent men who would have rendered the same service without charge. Vessels in which the owners would not have shipped guano were hired to transport troops at a price per day that in a few months amounted to the cost of the same when new. Steamships were chartered at prices that quickly consumed their entire value, and subsequently bought for as much more. In steam machinery the costliest work of the war, makers of second and third rate standing were often preferred to those of proved skill. The fortunes realized from "iron monsters," in one shape or another, were not few, nor

Exorbitant commissions, frauds in steamships, "iron monsters," &c.

all outside of the official bureaus. The negotiation of loans proved so fruitful a source of wealth that thousands shared in it, and some legitimately. Custom-house officers did not all lose the opportunity of enriching themselves at the public expense. Wherever money was handled, integrity seemed to decline.—We do not wish to leave this picture entirely without an edge of relief. There were many honest men in all branches of the public service, and we are glad to believe that their preponderance saved the great body of affairs from extreme and fatal disorganization. We may add this apology for some whose weakness alone made them follow the example of superiors—that theft loses much of its odium in official company, and even public exposure does not appear to sink it below a tolerable average of social respect.

The superior weight of honesty.

Disorganization necessarily leads to fraud.

The reciprocal part of this vast scene of robbery was the disorganization in the Treasury department which we have already described. The moment that confusion and obscurity take possession of the financial part of a business, public or private, it becomes the easy prey of burglars and thieves. There is hardly a possibility of detecting them. We apply this immediately to our Treasury affairs at the present time. Their volume is so great as to admit of great robbery without causing the slightest sensibility. We have the same human nature to deal with that we had during the war. In one respect, we are even more exposed. Unpunished, unarraigned, and "honorable" thieves pass before us every day. At the beginning of the rebellion, they had

nothing. They went into public office, or obtained contracts, and now they live in palaces, on which the people pay interest and taxes. Their delightful ease, their graceful luxury, their entertainments and equipages, speak forcibly to every man who may succeed to their opportunities—"do as we have done—there is no danger or harm."

Subdivision of affairs necessary order.

This is the ground on which it seems to us the part of best wisdom to separate from the current business of the Treasury, the management and liquidation of the debt. A complete system of order is impossible to so great a mass of affairs. It exceeds the scope of a single mind. Not only disorder, but demoralization, will naturally possess it. The parts, each having a weight of its own, will fall out of obedience to one head, since one head cannot supervise all. What then becomes of the virtue of the man who has the handling of money or bonds, or who by a false entry may secure a fortune? If a majority might resist the temptation, there are some who could or would not, and how are these to be distinguished in advance?

Proper scope of the Treasury

If the business of managing the debt should be exscinded from the Treasury, it would still be an overloaded department. Several of its twenty bureaus might advantageously be taken from it and put in other control. Neither the Coast Survey, the Lighthouse Board, nor the Statistical bureau has an exclusive relation to it. The Marine hospitals might better be assigned to the Navy department, to which the Revenue fleet also, consisting of thirty or more vessels, is more

naturally related. There would then remain, besides the subordinate branches of the strictly financial service, the Currency, the Customs, and the Mint, the efficient and faithful administration of which would suffice fully to employ the time and the thoughts of the Secretary.

The policy of the Secretary.

These subjects rank in the order named, as to influence on the general business of the country. In his first report after coming into office, Mr. McCulloch declared that "the legal tender acts were war measures, * * and ought not to remain in force one day longer than shall be necessary to enable the people to prepare for a return to the constitutional currency," (p. 4.) To indicate his proposed plans, we make the following additional extracts from the same report:

"There is an immense volume of paper money in circulation—under the influence of which prices, already enormously high, are steadily advancing, and speculation is increasing—which must be contracted, if similar disasters* would be avoided." (p. 8.)

"The expansion has now reached such a point as to be absolutely oppressive to a large portion of the people, while at the same time it is diminishing labor, and is becoming subversive of good morals" (p. 9.)

"There is no fact more manifest than that the plethora of paper money is not only undermining the morals of the people by encouraging waste and extravagance, but is striking at the root of our material prosperity by diminishing labor. The evil is not at present beyond the control of legislation, but it is daily increasing, and if not

* Referring to former suspensions of specie payments.

speedily attacked, will at no distant day culminate in wide spread disaster. The remedy, and the only remedy within the control of Congress is, in the opinion of the Secretary, to be found in the reduction of the currency." (p. 9.)

"On the 31st of September (1864) the circulation, bank and national, had reached the startling amount of upwards of $700,000,000. Nothing beyond this statement is required to exhibit the present inflation or to explain the causes of the current and advancing prices. If disaster followed the expansions of 1837 and 1857, what must be the consequences of the present expansion unless speedily checked and reduced?" (p. 11.)

The same

We might add many similar quotations; but these suffice to show the ground on which the Secretary has planted himself, and from which, since the time of his assuming office, he has been administering its powers. He is still endeavouring to put these ideas into practice. In his second report he censures Congress for having "prevented him from taking the first important step toward a return to specie payments." (p. 11.)

Disputed ground.

The Honorable Secretary plants himself on ground that is disputed by many of the most eminent financiers and economists of the day. We have already adverted to the successive efforts which he has made, to contract the currency, and to the fact that they have failed, after causing distress to labor and commerce as often as they were attempted. It is therefore not surprising that a change of opinion should have shown itself in the minds of the people. The House of Representatives in 1865 "indorsed by a nearly unanimous vote" the plans of contraction recommended by him; but the same body rejects them in 1866—7.

Four million a month, to which Congress limited the contraction of legal tenders, was deemed by him very insufficient; but he has found it impossible to carry even that into practice.*

This is where we now stand. The theory of Mr. McCulloch, that "inflation of the currency" is the main if not the only source of our present embarrassments, the only or principal bar to the restoration of specie payments, controls the administration of the Treasury, and through that the commerce, industry and productive labors of the country.

Let us enquire what this currency is—what office it performs, and ascertain if possible whether the theory of the Secretary is supported by facts.

Currency is the capital of labor.

For practical purposes currency is capital; and the currency of a country is the most important part of its capital. It is the most economical of all kinds of capital because of its easy and continuous circulation, in which it constantly repeats its service. It is especially the capital of labor. The poor and generally those who work on wages, have no other capital. The rich man has his bonds, houses, lands, ships, and so forth; the merchant has banks and credit; the manufacturer has machinery as his capital; but the laboring man has only the money that he earns daily; and so with all working people who live by wages—the only capital they ever get hold of is the share of currency to which they become en-

* The contraction was arrested on the first of January, the Secretary deeming it not expedient to enforce it.

titled by their labor. The currency is therefore by far the most necessary part of the capital of a country. It is the capital of the spade, the plough, the anvil, the tool bench, the type case, the needle, and in fact of every employment that is carried on by the great mass of the people, who have no other capital, and who never get any other.

How it has been misrepresented by politicians;

How important is this! With what caution and wisdom ought this capital to be meddled with! Yet it is the capital that is most assailed, most tampered and trifled with, most abused and scandalized, of all kinds of capital. The political demagogues and their editors have been instructing the laboring classes of this country for forty years past that the currency is the capital of the rich who use it for their own advantage, and to their injury, whereas the opposite is much nearer the truth. And they have succeeded in establishing an opinion more or less popular, that whatever troubles prevail in the money market, however industry and labor are paralyzed, all is chargeable to "the currency." The other part of the general credit, consisting of every kind of obligation—the book account, the promissory note, the mortgage bond, corporate and public stocks, making up a proportion of seven-eighths of the whole mass, they let go, charging every adversity on the one-eighth, composed of currency.

and charged with their own mischiefs.

A more extraordinary example of the force of persistent clamor is not on record. The general mass of credit being stretched too far, has over and over again broken up the markets and plunged all the labors of the country in distress,

spreading ruin broadcast, and throwing millions of people out of employment. On such occasions the demagogues and their editors have come out in full cry against "the currency" as the source of all the mischief. They have chased down the pursuit, tearing over the fields of industry, careless how much they might destroy, and succeeded in convincing the owners of these fields that it was the hare and not the hounds that did the mischief.

The safety of the bank bill.

The sober truth is this: that of all forms of capital in the United States, the bank-note is that which has done most good and comparatively least mischief. If banks have failed, the loss has been spread generally over the community and fallen mostly on those who were able to hoard capital in their pockets—much less on the laborer and day-worker than on their betters in condition. And of all banks that have failed, the notes have still been worth something and in the majority of cases have finally been fully paid. The total insolvency of the bank-note has been rare in modern times, and in the Northern States where commercial organization has been gradually working towards a scientific arrangement, it has been almost unknown for thirty years past. The moral sense of the community brands bank-note insolvency as felony. The privilege of irresponsible issue has been annulled by law. When we consider the immense service of the bank-note, how the same bill of five dollars furnishes thousands of capital every year, how in this way the mass of paper currency irrigates the whole field of production and comes back to be redeemed

at last in gold, we are astonished at the miraculous extent and perfection and honesty of the service. The percentage of loss in proportion to the gain by this kind of capital is as a drop of water to the ocean.

The misuse of currency no argument against its proper use.

Yet the use of paper currency may be carried to hurtful excess. It is necessary to restrict by law issues of representative value which are intended to circulate as money. Otherwise there would be no security against the impositions of unscrupulous and artful men. Nothing however is more weak and silly than to forego the service of a necessary instrument for labors, because it may be turned to bad purposes.

"It is in vain," says Hamilton, "to attempt to disparage credit by objecting to its abuses. What is there not liable to abuse or misuse? The precious metals, those great springs of labor and industry, are also the ministers of extravagance, luxury and corruption. Commerce, the nurse of agriculture and manufactures, leads to bankruptcy and distress. A fertile soil, the principal source of human comfort, not unfrequently begets indolence and effeminacy. Even liberty itself, degenerating into licentiousness produces a frightful complication of ills, and works its own destruction."

It would be as unreasonable for the Dutch to denounce the ocean and burn their ships because their dykes are liable to be broken down by the waves, as it would be for the people of the United States to repudiate the capital of paper currency because it may work injury by being issued in excess.

The terms of our present currency.

Let us consider the precise terms of our currency at the present time. The Comptroller's Report for December 1866 gives the total of "legal tenders" in issue at four hundred million. The law requires the National banks to keep on hand as a reserve twenty-five per cent. of their liabilities in these notes; and the sum of their liabilities is stated in the same Report to be $1,024,274,386. An exception in favor of country banks allows their city balances to be counted instead of legal tenders, as a reserve; but on the other hand many banks keep a much larger proportion on hand than twenty-five per cent. It may be computed that the total of "legal tenders" so held is not less than two hundred million, leaving the same amount in circulation.* The circulation of the National banks was over two hundred and eighty million, and that of the old State banks under ten million.

The present total of currency;

"Legal tenders"	$200,000,000
National banks	280,000,000
State banks	10,000,000
Fractional currency	27,000,000
	$517,000,000

This was the total of paper money in circulation on the first of October, 1866.

total before the war.

In his Report for 1861 Secretary Chase estimated the amount of gold in the country at "not less than two hundred and seventy-five million." The bank note circulation was two hundred and two million—together four hundred and seventy-seven million ($477,000,000).

* The sum of $205,770,641, is set down in the statement for October as a part of the resources of the banks. We presume this to be the amount of legal tenders held in reserve.

It appears by these figures that the paper money in circulation at present is but forty million in excess of the whole volume of 1861 when specie payments were maintained without difficulty. What then becomes of the theory of the Treasury Department on which its plans of administration are chiefly laid, that the return to specie payments is barred by "the inflation of the currency?" An excess of forty million spread over the vast field of labor and business in the United States is manifestly insufficient to account for the "depreciation" as it is called by some, of the whole body of interests to fifty per cent. below the standard of gold.

Comparative excess of forty million only.

If it be said that the two hundred million of legal tenders held in reserve by the banks still makes a part of the currency, we answer that on the same ground the one hundred million of gold in the Independent Treasury, also, is a part of the currency. But both are sequestered by law and are not permitted to enter into the active channels of commerce. We do not deny that the former as a substitute for specie may exert an influence on the liabilities for which it is held in pledge; but what that influence is, or of what worth, it is difficult to say. If we might be persuaded that it really answers the purpose of a reserve in gold, that would be one step towards the adoption of the "miser's hole" as a reserve, and the money itself might be let loose to circulate for the advantage of labor instead of printing another hundred million of the same for that purpose as lately proposed in Congress.

Half the legal tenders not in circulation.

To exhaust the last ground of controversy, we

Extreme hypothesis. may suppose that the portion of "legal tenders" held in reserve by the banks still forms a part of the currency, making the whole volume seven hundred and seventeen million. If there was no present employment of the currency different from that of 1861, it might yet be doubted whether the excess of two hundred and forty million is sufficient to account for the difficulties of our situation. But it is well known that the rebellion struck down commercial and personal credit generally, inaugurating in its place cash settlements, for which the increasing currency was more convenient and satisfactory than had been the promissory note and the open book account. It is computed from the records of the New York Clearing House and from other sources of information, that of the loans and discounts carried by the banks in October, 1866 ($623,786,993), at least one-half consisted of government securities, showing a decline in strictly commercial paper as compared with 1861, of $384,884,924.* The total of open book credits in 1861 exceeded that of 1866 by a much greater sum, so that we are sure of being within the truth when we name eight hundred million of dollars as the volume of business supported and carried on continuously in 1866 by the currency, which in 1861 was represented by promissory notes and current book credits. Whatever

Change in credits from 1861 to 1866.

* Loans and discounts of 1861		$696,778,421
Total do. October, 1866	$623,786,993	
Less one-half	311,893,496	
		311,893,497
		$384,884,924

amount of currency is absorbed by this eight hundred million of transactions should be subtracted from the circulation of 1866, and if the residue be not greater than the circulation of 1861, there is no redundancy in the currency as compared with that period, when specie payments were easily maintained.

Theory of inflation.

The theory on which currency is alleged to inflate prices, requires a certain amount of currency for a certain amount of business. If that amount is not exceeded, any contraction of currency would abridge or distress labors. We have seen this result on several occasions recently when the Treasury has attempted the experiment of contraction. No sooner was it begun than "a cry of pain" was heard through the markets, and it had soon to be abandoned. It is reasonable to infer that if there had been an excess of currency in issue, a part would have stagnated in the banks and no distress could have been caused by the withdrawal of that part. But the proof was immediately developed that there was no stagnation.

Why contraction distresses the markets.

We shall see by a very simple illustration, why it is that the process of contraction is now distressing to commerce. Let it be supposed that the currency was in its proper proportion to the body of affairs in 1861, when it stood at \$477,000,000, and when the yearly product of the country was estimated on a specie basis at \$4,000,000,000. The same product at the present time represents a higher valuation by at least fifty per cent. From this we have the question in proportions—if \$4000,000,000 require \$477,000,000 of currency as

its instrument, what will $6,000,000,000 call for? The answer is—$717,500,000.—By a remarkable coincidence this is the exact amount of our present currency. But is this a mere coincidence? The same causes operating, the same tendency to mutual adjustments between the correlative parts of a system of things would naturally end in a balance, and wise legislation would endeavor to support that balance.

We have now shown—

The currency of 1866 not redundant

First, that the active currency of the country in October, 1866, was in excess of the currency of 1861 only forty million of dollars;

Second, that the amount of commercial paper and book credits being at least eight hundred million less in 1866 than in 1861, there was a much greater office for the currency to perform, and the excess of forty million was fully absorbed, making it not a redundant part;

Third, that the increased price of products demanded an increase of currency to maintain a due proportion of the instrument to the use required of it; and

Fourth, that even if the two hundred million of legal tenders be counted as a part of the circulation, there is no real redundance of the currency because the service required of it is greater relatively with the amount in issue, than it was in 1861.

Absorption of currency by increased prices and wages.

This last proposition contains an element of such weight in the argument as to deserve particular attention. The higher cost of products has involved the increase of wages which are not less than double the rates of 1861. The absorp-

tion of currency by wages has been increased much beyond the mere enlargement of price. The practice of credit for labor has been mostly discontinued. In the Western States there was a vast field to be supplied which was never before furnished with currency of any kind. In many parts of the country a bank note or a piece of coin was formerly a rarity. The wealthiest farmers were obliged to give store orders to their laborers, and themselves often to deal by barter. The currency of the national banks having penetrated these far districts has given the people a taste of its convenience and economy, and the consequence is that it remains in perpetual circulation. This fact lessens, if it does not of itself entirely destroy the force of comparison between the present volume of currency with that of former years, for the purpose of proving a redundancy. There is another fact of still greater importance which pushes the argument to a demonstration that cannot easily be refuted. That is, the opening of the entire South to wages. It is hardly possible at present to get hold of any precise data on this branch of the subject, but we know enough of the habits of men to justify some general conclusions with respect to the amount of currency that will be necessary to supply that hitherto naked field of labor with the instrument which is at the same time its necessity and its right. Full a million of laborers with an average of three dependents each, making four million, of the negro population alone, must be paid for their work and must deal at stores for clothing, groceries and so forth. The negro is the master

Currency indispensable to labor in the South

of the cotton culture, the yearly product of which counts hundreds of millions. This culture which decides the general balance of our commerce with other nations depends on wages, and the wages depend on currency. The attempt to enforce it by written contracts is practically the substitution of a fraudulent paper currency for the honest bank or treasury note. Nothing short of wages in money ought to be allowed to be the legal counterpart of labor among the negroes of the South; and all effort to establish any other will at last fail in spite of law and force to help it.

The balances of commerce with foreign nations dependent on currency.

We might with good excuse enlarge on this theme. The negro, even in his present state of pupilage, is proved capable of reaching high skill in the mechanic arts; he has a lively appreciation of the comforts, enjoyments, and even of the luxuries and fineries of life; he snatches at letters with an instinctive and almost superstitious confidence that they contain the real charter of his manhood; in short he possesses every element of an efficient co-operator in civilization and government. Not only the immediate prospects of the South, but the commercial status of the country is in his hands jointly with the soil and climate where circumstances have given him a residence, and from which he cannot be expelled. Considering the lack of intercommunication in the South which limits the activity of the circulation of money, it may be presumed that more than double the amount of currency will be required to supply its extent from the Atlantic to the western borders of Louisiana and Texas, than experience proves to be barely sufficient for the

Eastern and Northern States. From two to three hundred million might gradually be absorbed in this vast region, and aid in its development more than any other appliance within human reach. If fears are roused that the volume of a thousand million of currency will inflate prices, they may be allayed by the assurance that it is but the substitution of one kind of credit for another—of a better for a worse. And it is worth while to consider that we have on our hands the task, not to be avoided, of providing a currency for the widest, most active, and most promising scene of population, labor and commerce that has ever been united in one system. Nor is the amount of a thousand million out of proportion with the service required, as measured by any experience of our own or of other nations.

What else can be substituted for currency?

Proportions of credit.

After all, the question resolves itself fairly into one of proportion in the parts of which our general system of credit should be composed; and it is obvious at sight that these proportions must be determined according to the circumstances of the country. Examples drawn from the experience of other nations may instruct, without being allowed to govern us. A country like England intersected in every part by railways and telegraphs will be efficiently served by one-tenth part of the currency that is necessary to our Southern States. The activity of exchange supplies the place of quantity; distance and the difficulties of transport neutralize it. A compact manufacturing community will repeat the use of its currency, perhaps two or three times a day, whilst an agricultural people widely dispersed

would scarcely do it that often in a month. Are not these facts material elements in the case? Do they not show that what would be an excess in one country might be a deficiency in another?

Different kinds of representative capital.

The laws provide or allow certain kinds of representative value to circulate as property making up a mass of credit capital. The chief are the railway mortgage, the corporate stock, the promissory note, the bank check, the public bond and paper money. All but the last named are of limited use and special in character, belonging to and serving exclusively those who possess accumulated means and who are entirely or measurably independent. The great majority of people get no direct advantage whatever from these kinds of capital, but are wholly dependent on the currency, which equally serves all. It is therefore a matter of high commercial wisdom and of profound social science to determine the proportion that this common or popular capital ought to bear to the whole; for at the same time it determines the existence and prosperity of labors. Do not these labors themselves, the industries built upon them and the commerce to which they give rise, contain the true answer to this proposition? If we find them responding with indications of distress to the repeated attempts of the Treasury department to reduce the currency, should we not respect these indications in preference to mere theories and opinions formed without any contact or consultation with practical affairs?

To illustrate in a more sensible manner the point here in question, we assume the condition

The proportions of credit in 1861 and 1866.

of business in 1861, or at any prior time when specie payments were maintained, to be represented by a total of 100, in the given proportions of capital or instrument:

Railway bonds	15
Corporate stocks	10
Promissory notes, bank accounts, &c	60
Public bonds	5
Currency	10
	100

The changes brought about by the rebellion affect three of these parts, it may be supposed, so that they now stand somewhat as follows:

Railway bonds	15
Corporate stocks	10
Promissory notes, bank accounts, &c	30
Public bonds	25
Currency	20
	100

Credit the stimulus of price.

No sentiment is so frequently and confidently asserted in the two reports of the present Secretary of the Treasury, as that the high prices of the markets are caused by "the inflation of the currency." We do not doubt that he sincerely entertains this opinion; but it must be apparent to the most casual observation that a change of proportions within the body of instrument, by which the diminished service of one part is simply taken up by another without adding to the whole, can have no very considerable or permanent effect such as the Secretary assumes to have taken place. It is an undisputed doctrine of economy, and a self-evident proposition that

the "purchasing power" of credit, is the great mover of price in commerce. That power is expansive beyond any limit of law. When the fever of speculation rages, it sweeps judgment and prudence before it. Like an exhilarating gas, it takes men out of the world of facts, and puts them into one of unbounded conceit and deception. Not so with currency under the new laws.

Currency not employed in large commerce.

Currency is limited in quantity and secured by guaranties beyond the remotest accidents of common experience. It hardly enters at all into the large transactions of commerce. It is unknown in the great markets. Its office is in the small shops and in the details of personal dealing.

The Secretary of the Treasury misled.

To that cause of high prices which Mr. McCulloch names as secondary only, viz.: oppressive taxation, we have already assigned the first place in previous parts of this volume. While we have a cause so clear, and one that has been amply demonstrated in the experience of all countries to be fully adequate to such effects as we are now contending against in the United States, it seems little less than idle to turn away from it and to expend the main forces of correction against the light and passing shadows of "the currency." The error is so grave, and is attended by such grave consequences to the productive and industrial labors of the country, that we can scarcely find respectful words sufficiently strong to combat it. With a false key in his hand the Secretary has been searching through two years past for a small aperture of escape from circumstances which he rightly describes as "demoralizing" and "crushing"

in the last degree, while the proper key has been lying on the table beside him, and the door of deliverance has waited for his hand to open it.

It is begging the point in controversy to allege that the "inflation of the currency" has caused the high prices. Nobody will deny the general rule that an excess of money in a market will raise prices. It must be shown, however, that it is so in a given case. An overweight will break the ice on a river; but it does not follow that any given weight will do it. We have made inquiry at the clearing house, where the fact should be known, to ascertain if there is or has been a stagnation of currency in New York where it would accumulate, if at all, and the answer is in the negative. In 1837 the stagnation was seen everywhere. Currency filled every bank vault, and it could not be used. But that was a time when the issues of banks were not restricted by law, when there was no personal responsibility of the issuers, and when there was no guarantee for the soundness of the bills. Now, we have all these, and not one sign of redundancy.

There is a point at which the currency ought to be attacked—that is when it is not busy in its natural and special function of helping labor, industry, and trade; but common sense teaches that when it is so employed, it should be let alone.

Labor must have its capital.

The foregoing observations on the currency are from the stand-point of facts, expediency, and necessity. It is our first duty to keep steadily in view the great end, and we may surely add, the

only end, which being secured will have positively secured with it, and permanently re-established, the social, and consequently the political unity of the country, viz.: the organization of productive labors. Commerce and industry will take care of themselves. The currency is the only instrument immediately within our reach which we can directly and without delay apply to those labors.

Currency ought to be redeemable in specie.

We have left in abeyance the question which theory of itself cannot answer—What is our currency to be hereafter in kind and limit? With a conviction resting strongly in the mind, that specie redemption on demand at the centre of liquidation is indispensable to a sound, firm, and moral commerce, we believe the part of wisdom is to wait the course of things, and to watch for these instructions as they flow, and to reserve judgment until the testimony of the case is rendered. It is by no means demonstrated, as many of the least informed (and consequently the most positive) theorists in finance affirm that paper money is in itself demoralizing and injurious, or even that it may not be employed as capital to a much larger extent than it has been heretofore.

Mr. McCulloch defines his policy;

The policy of Mr. McCulloch is clearly defined in his reports, as follows:

1. "In compelling the National Banks to redeem their notes at the Atlantic cities, or at a single city." (*Report of December*, 1866, p. 16.)

2. The repeal of the legal tender acts, which, he says, "ought not to remain in force one day

longer than shall be necessary to enable the people to prepare for a return to the constitutional currency." (*Report of December* 5, 1865, p. 4.)

3. "That the work of retiring the notes which have been issued under them should be commenced without delay, and carefully and persistently continued until all are retired." (*The same*, p. 5.)

4. "That our revenue system shall be frequently and carefully revised, in order that it may be accommodated to the habits and character of the people, to the industry of the country, to labor and capital, to wages at home and wages abroad." (*The same*, p. 27.)

5. In the issue of five per cent. bonds payable in England or Germany in twenty years, to absorb the bonds now held there and to meet further demand for European investment. (*Report of* 1866, p. 16.)

6. The complete payment of the debt by "the present generation." (*Numerous clauses in both Reports.*)

7. "The rehabilitation of the States recently in insurrection." (*Report of* 1866, p. 28.)

and fixes a time for resuming specie payments.

With these measures carried into effect "the Secretary is of the opinion that specie payments may be resumed, and ought to be resumed as early as the first day of July, 1868." (*The same*, p. 30.)

Taking means of redemption away from the banks.

There appears to be some incongruity in the proposition to "compel" the banks to redeem their notes in legal tenders while at the same

time putting the legal tenders out of reach. If specie payments were in force with the amount of specie limited to that of the legal tenders, such a proposition would be likely to bring on suspension. It is true the Secretary waives the immediate repeal of the acts under which the treasury notes are issued, but this avails nothing since he proposes to cancel the notes themselves, and to increase the rate of cancelling from four million a month as voted by Congress, to six million for the year ending June 30, 1867, and after that date to ten million a month.

No direct purpose of any consequence to gain by redemption in legal tenders.

We are not surprised that the Secretary is perplexed by the National bank bills. Their greatest merit is also the greatest obstacle to their redemption.* Being of uniform value in all sections of the country, with the guarantee of the public bonds for their soundness, why should any man want them to be redeemed? Why, especially, should he want to exchange them for other notes not as well secured, by ten per cent.? If we suppose to take place an equal depreciation of the bank, and of the legal tender note, the former would still be worth one hundred cents on the dollar, whilst the latter would be worth but ninety cents. The quality of "legal tender" gives no value except in the rare case of payment of debt being demanded in gold. Under

* "National currency notes when once put in circulation are scattered from the Atlantic coast to the Rocky Mountains and from the St. Lawrence to the Gulf. No one ever looks to see by what bank the notes are issued, and, there being no established system of redemption, they are not and will not be returned to the bank of issue until they become so mutilated as to make them difficult to circulate." (Report of Comptroller of Currency, p. 11.)

these circumstances the personal holder of a bank bill would be, commercially, a fool, to exchange it for a legal tender note of the same face. If the exchange were in the reverse order, making the bank note which is the higher value, the redeeming medium for the legal tender, which is the less, the process would be natural and intelligible. In reality there is no direct purpose of any consequence whatever, to be effected by the redemption of the bank notes at New York. The indirect purpose, which may be of sufficient consequence to justify the otherwise needless trouble, is, to restrain the banks from a height of expansion in their loans which would favor speculation to the prejudice of solid interests; but this purpose might be as well and more cheaply answered by a legal restriction of loans to a certain relation with capital.

The Secretary censured without cause.

The Secretary of the Treasury has been censured for not enforcing redemption of the bank currency in the eastern cities—most likely without cause. If a thing difficult to be done, carries no compensation or use with it when done, it is hardly worth while to cast censure for its non-performance.

Absurd theory of the Treasury about legal tender notes;

A very absurd theory is set up by the Comptroller of the Currency in his sub-report to the Secretary, with respect to the treasury (legal tender) notes—that "they originated in the necessities of the Government, not in the necessities of trade and commerce"; that "there is no element about them in sympathy with the commercial and industrial interests of the country"; and that bank notes "are amenable to the laws of trade, while the government issues are not."

Mr. McCulloch signifies his entire concurrence with the Comptroller whose words and ideas are a mere repetition or enlargement of his own.

It is a new doctrine that the furnishing of supplies to the Government is not a part of "trade and commerce." In agreement with this notion, the man with a spade in his hand one day, wearing cloth and eating food, would be connected with trade and commerce; but on the next day with a bayonet on his shoulder, wearing the same cloth and eating the same kind of food, he would have no relations with trade and commerce! Was not all the consumption and waste of the war supplied by trade and commerce? Was not war for the time as much the legitimate business of the country, as the employments of peace are now? It might at least be said that to raise wheat, make it into flour, and carry it from Michigan to Georgia to feed hungry men was a part of trade and commerce; but if some of the bread should be eaten by the army—what then? How are the loaves to be separated and distinguished? The war set actively to work all the forges, machine shops, ship yards and transport of the country; but in the opinion of the Secretary of the Treasury, there was no trade or commerce involved!—Such opinions are of little consequence in themselves; but when a policy of administration covering the country like a cloud is founded upon them, they acquire a bad importance. Since the treasury notes were called forth "not by the business necessities of the country, but by the necessities of a great emergency," the conclusion is reached by the Treasury Department that

and consequent false conclusions.

"this currency cannot contract or expand from natural causes." Hence, in pursuance of this chop logic, the currency is to be contracted without reference to natural consequences !

The Treasury has no confidence in Commerce.

It is disregard of commerce that makes the grand error of our Treasury policy. Again and again we find affirmed in the reports of the Secretary the truth that productive labor is the source of all wealth, the foundation of everything valuable in the country ; but no sooner does he touch the management of the finances, than he deals the most damaging blows to it, by ignoring all connection between commerce and labor—between the ships that navigate the ocean and the grain that grows upon our soil. The Treasury itself with all its treasure, is the fruit of commerce. It can exert influence on labor only through commerce. It can promote the return to specie payments only through commerce. It can do nothing by the force of law. It is itself under the force of commerce. It has been obliged by commerce to suspend the contraction of the legal tenders at the slow rate even of one per cent. a month, notwithstanding its assumption that this currency is not subject to "natural causes."

Proposal to reduce the rate of interest on the public bonds.

The Secretary of the Treasury has named *five per cent.* as the rate of interest at which, in his judgment, it is most desirable that the debt shall be refunded. It does not appear that he has any other reason for this choice than the fact that it will be "cheaper to the government" than six per cent. by twenty-seven million of dollars a year, and allow that much reduction in the taxes.

This reason is not sound, and if it were, it would not be sufficient.

The natural rate of interest.

The average rate is now near six per cent. which is the popular, and probably the natural rate for the United States. Economists recognize such a thing as a natural rate of interest, though it may not be easy to determine it with precision. Of one thing, however, there can be no question—that the circumstances of a country make the ground on which the public bond rate should be fixed, and that the rate of one country is no guide for that of another.

It is peculiar to the country.

The circumstances which, in the United States, chiefly influence the rate of interest, are connected with the vast extent of unoccupied land, and of undeveloped resources, which invite enterprise, and employ capital. While the shores of labor still stretch out as population advances, there are no barriers to throw capital back and lift its level to competition in numerous small or peculiar industries such as are pursued in old countries. It must accumulate to a certain height, like water in a basin, before it can overflow and thereby reduce its head. Reduction in the common rate of interest in a country is the sign of a limited market for capital. Centuries may pass before this point is reached in the United States.

A lower rate will make the public credit unstable.

In opposition to these views, the Secretary of the Treasury seems to think that the government has some authoritative power to impose a rate of interest on capital. He does not suspect that a proposition to refund our debt at a much lower rate than commerce is ready to pay for money,

may, and certainly will be an obstacle to its being refunded at all in a satisfactory manner. If he could succeed in accomplishing it at five per cent. while the legal rates run from six in the older States to ten per cent. in the newer, he would succeed only in putting it on an unstable basis; for the capital invested in it would forever be tempted to change by the more profitable employments offered in the market. Stability in the price of securities is the foundation of confidence, as dissatisfaction and distrust surely attend changeableness of price. What feeds speculation and gambling in stocks is the variation of price from day to day.

Independently of theory, there are practical bearings and consequences contained in the proposition of Secretary McCulloch by which it may be resolved with little difficulty.

The rate is already fixed and cannot be changed.

The debt is already funded, however badly, at a rate over six per cent. If the Secretary wishes to change this to five per cent. he must change the capital, because he cannot arbitrarily change the income of people. His task is to swap one thing for another—not simply to sell a new thing. The holder of a public bond of $1,000 carrying six per cent. will not take a five per cent. bond in exchange for it, at the same face, but will require the capital to be changed to $1,200. If the Secretary has an option that enables him to put his foot on the bondholder's neck while he takes the six per cent. piece of the public faith out of his pocket and puts in its stead a five per cent. piece of that faith, then the question will have force—what is the public faith good for? But an honest

exchange in which neither party will suffer prejudice would require the principal to be rated on the income; otherwise the rule of fair commerce is violated and one party will get something for nothing.

The reasons why.

One of the motives that induced the Treasury managers to take up loans at short dates and to append options to them, was, to get the opportunity of refunding at lower rates of interest. There is but one honest way of refunding, and that is, by paying up the old loan completely, and then offering it anew in the market. It is a legitimate transaction in commerce to take advantage of momentary fluctuations to borrow at lower rates when they are depressed; but it is understood that the lender has the same right to call for higher rates when the fluctuations turn in his favor. The circumstances are very different in the case of government loans which are intended to continue a long time. If Mr. McCulloch should advertise a five per cent. loan of five hundred and fifteen million to replace the Five-twenties coming due the present year (1867), and succeed in getting it at the same face, it would be by the influence of transient conditions which, passing away, would leave the takers with their bonds in hand at a market-reduction of the principal equal to the loss of what the government gains by the transaction; and they would feel dissatisfied with their ill fortune. The old holders of the Five-twenties who had come forward when the government was in a strait and given their capital at some supposed risk, likewise would feel dissatisfied at having their investment

Reduction of the rate a mere trick.

taken from them by an "option," just at its most profitable season. This would be a mere trick of management, the only gainers by which would be the engravers, brokers, and manipulators of the bonds.

Not honest for the government to beat down the interest.

But it would not be an honest proceeding for the government to take advantage of a transient state of the market to beat down the rate of interest on the public bonds. If the rate of money becomes easy, it is mainly because of the very condition brought about by the original advances of the bondholders, enabling the government to put down insurrection and reëstablish the authority of the laws. This would be turning the liberality and confidence of capital into a weapon to injure the capitalist. It would be no better than getting money on false pretences; for if the capitalist had been told that the first favorable opportunity would be seized to reduce the interest, he would not have given as much for the bond. It is true that the government reserved an option; but to avail itself fairly of that option, it must pay off the loan completely, and not use the coercive influence of circumstances to renew it by conversion without payment. It is not payment of a loan to borrow money only to recontract it at another rate, any more than it is payment to take up a promissory note by the discount of a new note.

The market ought not to be troubled with the same loans twice

Another point entitled to consideration is this—that the market having once supplied the government with all the loans it required, ought to be exempt from the disturbance of having the same loans put upon it again, and in a sinister manner.

Let us take for example the Five-twenties due in 1867 amounting to $514,780,500. It would be as great a disturbance to the market to refund this large sum as it was to get it funded in the first place. Indeed it would be a greater disturbance, because those bonds are widely scattered in various custody, many of them representing trust funds, many hypothecated, and many being assets of unsettled estates. To tear up investments of this kind by the roots merely for the sake of investing over again, and that at a lower rate of interest would be to annoy and injure the public creditors beyond measure. And it would, as it should, injure the public credit; for what certainty would there be that another refunding at a still lower rate of interest might not follow at a future time.

A note of repudiation by the Secretary.

If honesty is the best policy in any relations of business, it is so in the money affairs of the government. The government is without even that flimsy apology common among knaves, that it "cannot afford to be honest." It cannot afford to be dishonest. The moment it descends to trick or indirection or concealment, that moment it suffers discredit, and in all its transactions it is met by knaves sharper than itself. The refunding of the Five-twenties in the manner described, would put the government in a dishonest relation with its creditors. Essentially it would repudiate a portion of the interest due to them, and invite repudiation in return.

A rate of interest cannot be imposed on the market.

One of the lamest faults of the Treasury department in most if not in all its negotiations since 1860, was, the endeavor to force a rate of interest

on the market. Delays and partialities were the unavoidable consequence ; and thence the reluctance of capital. One instance was that of the Ten-forty loan, which being offered at a rate less favorable than the Five-twenties, caused a speculation in the latter instead of investment in the former ; and after a fruitless forced effort, the loan itself was withdrawn. But the whole market was injured by the silly experiment.

A fair and open refunding of the whole body of the public debt at five per cent. is doubtless practicable ; but the result would be such an increase of the capital as would make the investment equal to the present income derived from it. Income being the controlling term, the equivalents of kind are expressed as follows :

$162,000,000 requires of 6 per cent. bonds $2,700,000,000.
$162,000,000 requires of 5 per cent. bonds $3,240,000,000.

There would then be a greater mass for the market to support, and the lower rate of interest in comparison with other investments would keep a larger proportion of it in the hands of agents for sale, tending constantly to depress the price. The standing of the public credit would be represented by a quotation of $83.33 for the par of $100, while for a six per cent. stock it would be $100 for $100.

Liberal views by Mr. Fessenden.

Mr. Fessenden, in the only report which he made as Secretary of the Treasury, December 6, 1864, has the following pertinent paragraph :

"It is the province of Congress to indicate, and determine upon, the terms that may be offered to those who are invited to invest their means in government securities, and it would seem both

wise and prudent to make those terms sufficiently liberal. If our public debt must necessarily be large, and require a long course of years for its liquidation, its wide diffusion is most desirable. Such advantages should be offered as will induce all who have anything to spare beyond the amount required for their own support or use, to invest that surplus or a portion of it, in the national securities. These advantages can only be found in an increased rate of interest, an exemption from public burdens, and security of possession. What limit should be fixed in either of these particulars, it is for the practical experience and wisdom of Congress to ascertain and determine." (p. 22.)

To reduce the rate would cause sectional jealousy;

"The wide diffusion" of the public credit would be opposed by a reduction of the interest to five per cent., especially in those States where the legal rate of interest is eight and ten per cent. as in a great part of the West and South. The people in those regions would then be subject to the burden of taxation, only to see the collections sent away to supply income to bondholders at a distance—a process similar to that of exporting gold to pay interest on bonds held in Europe. As we have shown elsewhere, this is a positive loss of capital to the taxpayers. Hence might easily follow sectional jealousy, and a decline of the feeling of unity and nationality which it is so desirable at the present time to encourage.

and concentrate the bonds in few hands.

A reduction of the interest on the public bonds to five per cent. would prevent their "wide diffusion" in another way. It would cut off small investers, who would then prefer the savings banks which generally pay six per cent. It

would cut off "the rank and file of the army that has saved the nation—the working man in peace, the fighting man in war, on whose limited investment six per cent. might mean a mediocrity of comfort, while one-fifth less would leave him struggling in the "Slough of Despond." The more personal the relation of bondholder is to the government, the safer is the Union—the more secure is society from revolutionary disturbance. If the great mass of bonds should get into possession of banks, companies, and overrich capitalists, we might fall into the condition of those countries described by Mr. McCulloch in his last report (p. 10) "where national securities become monopolized capital in the hands of monied aristocracies, who not only absorb the means, but give direction to the sentiment of the people."

Advantages of diffusing the credit.

The precept of "wide diffusion" so happily stated by Mr. Fessenden contains a profound thought. It makes available to the national credit, the natural circumstances of the people. It adds economy to labor. It supplies the want that labor feels when it brings home its wages at night, by offering a productive "laying up" of the surplus of necessary expenditure, and therein provides against the waste that destroys character. It comprehends the most influential motive and stimulus to the organization of the family, whence springs the organization of the State. We are charmed with its picture of every social occupation brought under the same rule of order by opposing the simple force of opportunity to

the corruptions of extravagance. In the fruitful bond of one hundred dollars, the poor man may find the satisfaction that a large estate gives to the rich—the power of governing the circumstances of his family instead of being oppressed by them; the ambition of decent and profitable connections instead of idle and vicious habits, for his children education instead of ignorance, and labor a blessing instead of a curse.

The Banks hold the public bonds only transiently.

The Comptroller of the currency informs us in his late report that the national banks hold one-fourth of the entire mass of the public debt.—How long will they continue to hold it, if its income is to be reduced twenty per cent.? They hold this large amount at present only because commerce does not need its own capital for its own use. When the normal conditions of business are restored, the bonds will be displaced by the more profitable and the more legitimate investments of the current market. Even the rate of six per cent. will not be likely to prevent this result because it is commerce and not government that is the reciprocal interest of banks. If the Secretary founds his project of refunding the debt at five per cent. on the expectation that the banks, savings, and trust companies will continue to hold the public bonds in permanence at that reduced rate, the sooner he gets rid of the delusion, the better. The mortgage on real estate is equally valid, and in a supposable extremity more safe. The high rates of interest in the West and South, the unbounded field for new and dazzling schemes of enrichment, and countless

improvements of better promise, would banish a five per cent. bond from the popular markets.

The Secretary's theory of specie resumption.

An extraordinary theory with respect to the resumption of specie payments is announced by Mr. McCulloch:

For the year ending June 30, 1866, the imports of foreign merchandise and specie amounted to	$423,975,036
The exports, including specie, to	415,965,459
Balance against the United States	$8,009,577

The valuation is made in gold. So small an adverse balance as eight million gives no cause for anxiety. But the Secretary says "to make up for under valuations and smuggling, and for cost of transportation paid to foreign ship-owners, twenty per cent. at least should be added to the imports," by which the balance is increased to $100,000,000. He then estimates the amount of American bonds held in Europe to be six hundred million:

Amount of bonds held in Europe.

United States bonds	$350,000,000
State and municipal bonds	150,000,000
Railroad and other stocks and bonds	100,000,000
	$600,000,000

"It is evident," says the Secretary, "that the balances are against us, and chiefly by the exportation of our Government bonds are being temporarily and improvidently arranged; temporarily because a large portion of these bonds have been bought on speculation, and will be likely to be returned whenever financial troubles in the countries in which they are held shall

make it necessary for the holders to realize upon them, or whenever satisfactory profits can be made by returning them, which will be when they nearly approach their par value in coin ; improvidently, because they are being purchased at very low prices, and because their exportation stimulates imports, and thus cripples home industry."

Fancied terrors.

"Nothing is more certain than the fact that there can be no permanent resumption of specie payments in the United States until the balances between them and other nations shall be made easy by an exportation of commodities, including the products of the mines, equal at least to our importations, and until provision shall be made for returning bonds, or for preventing their return at unpropitious times." (*Report of* 1866, p. 15.)

The Secretary proposes two expedients to ward off this threatening balance of seven hundred million.

First. "He regards a redundant legal tender currency as the prime cause of our financial difficulties, and a curtailment thereof indispensable to an increase of labor and a reduction of prices, to an augmentation of exports and a diminution of imports." (*Same*, p. 12.)

Second. He asks Congress for authority to "issue bonds not having more than twenty years to run, and bearing a low rate of interest, payable in England or Germany," to take up those held in Europe ; and expresses the opinion that the holders will prefer a bond at five, or even at four and a half per cent., to one at six per cent. with the interest payable in this country.

The Secretary on a false scent.

That the Secretary is on a "false scent" in attributing such mighty influence to a contraction of the legal tender currency is made probable at least, by what we have heretofore said; but even if he is correct, our hopes of relief from this quarter are in a "dissolving view," since he has found it necessary to suspend the very moderate reduction authorized by Congress. It is asserted that the "speculative banks" have defeated the Secretary's purpose, and especially the banks of the West. That some influence has been exerted by those banks which are making great profit by carrying a high loan line, may plausibly be inferred; but there is much more evidence to show that the main opposition comes instinctively from the mass of occupations, and from those pioneer labors which are stretching our grain fields towards the Rocky Mountains, and pressing Northern enterprise southwardly of the Ohio river. It is unjust and untrue to allege that the banks generally are expanded beyond prudence, while half their loans consist of government securities. The inevitable consequence of the contraction of legal tenders will be to put these securities on sale because they are the most easily convertible part of bank resources; and hence it is that their price, and the price of stocks generally, decline when contraction begins.

The legal tenders a substitute for gold.

When a system of credit is no more extended than is needful to the wants of business, an effort to contract any part of it will either force a compensation from the other parts, or the whole will be distressed. The legal tenders are as gold to the banks. No sooner are they touched than the

8*

whole system thrills as it was wont to do formerly when bill holders began to run for specie. In short the contraction of legal tenders by the government, while it seizes the gold of commerce and locks it up in the Independent Treasury, is equivalent to a run for specie on the banks; and while the banks "hold one fourth of the entire indebtedness of the United States,"* it is a run of the government on its own creditors!

Unfair treatment of European bondholders.

The scheme of issuing new bonds for the European market, to take up the old ones now held by it, is worse than trivial; and nothing could be more sure to excite distrust, and to demoralize that part of our credit than the reduction of the interest upon them. Hardly have these bonds found a resting-place, and begun to win the confidence of investers in Europe, when the Secretary of the Treasury proposes to cut down their income twenty-five per cent.! What is such a measure in effect, but to cut down the capital of the bonds to three-fourths of its present amount? The bare suggestion, officially laid before Congress will afford a ground for sharpers to rouse the fears of the holders and to wheedle them out of their investment at any price they may choose to offer. Our government will be charged with designs of repudiation. Most of the bondholders, being ignorant of our language may easily be duped by the falsehood, and as easily kept ignorant of its denial.

The supposition of the Secretary is that the European holders will give up twenty or twenty-

* Comptroller's Report, p. x.

five per cent. of their income for the sake of having their coupons payable in Europe instead of in the United States. That is to say, they will give a commission of four or five million of dollars a year for the collection of twenty-one million of interest; or they will agree that their three hundred and fifty million of bonds shall be reduced to two hundred and sixty million! We cannot believe that the Secretary has considered the serious bearings of this extraordinary proposition.

A monstrous commission.

The argument in favor of a European bond, is, briefly, that being payable in Europe, it cannot be put on the home market for sale. But how is this secured? May not a capitalist in the United States as well hold bonds payable in Europe, as a capitalist in Europe hold bonds payable in the United States? The profit of the holding will govern the case in spite of even an Act of Congress. Again, it is supposable that a bond will command a price according to the extent of the market in which it is negotiable. If not negotiable in the United States, as we suppose it to be, it would inevitably be held in lower esteem by capitalists anywhere. It seems little better than a trick to attempt to put our bonds abroad that they may not trouble us at home. Fortunately, Congress does not appear disposed to act on the suggestion of the Secretary; and the national credit is not likely to be put in a begging attitude for foreign help.

Argument for and against a bond payable in Europe.

"Nothing is more certain," says Mr. McCulloch, "than the fact that there can be no per-

Hopelessness of resumption on the plan of the Secretary.

manent resumption * * until provision shall be made for returning bonds, or for preventing their return at unpropitious times."

This is a new complication. We may despair entirely of ever being able to resume specie payments on this ground. According to the Secretary's show we have a bond balance against us of six hundred million of dollars! We cannot accept his theory, however, as being well founded either in commercial probabilities, or in any known principles of human conduct. The owners of property do not generally hasten to sell it in proportion as it comes to be of more permanent and unquestioned value. These are the terms on which the Secretary builds his estimates and determines the policy of the Treasury—that the very circumstances by which our bonds will be made a better security, will cause people to hasten and get rid of them. It might have occurred to him that these circumstances, which embrace the general improvement of our affairs at home, would give us the means to bring back the investment quite as fast as it would be offered to our market; and also that there can be no price of repurchase forced upon us. If we purchase at all, it must be voluntarily. If we do not incline to purchase, or have not the means, the whole mass of six hundred million might lie in the chests of agents in Wall street as quietly as it now reposes in "London or Frankfort." So long as they remained unsold these bonds could not weigh a feather in the scale of the foreign exchange.

Finally, the six hundred million of American bonds now held in Europe, are in the exact relation of that amount of merchandise or any other transportable property. Our market cannot be forced to take them, nor can our government, nor is there any obligation, commercial or moral, resting on either to do so. They do not threaten our exchange, nor can they possibly enter into it, excepting so far as the annual interest on them is concerned. The whole mass of this terrible avalanche of six hundred million of foreign liability, is therefore a mere figure in the brain of our Secretary—an imp on the wall, and nothing more.

Bonds held in Europe not threatening to us. An imp on the wall.

Nor do we perceive the force of the statement that the real balance in commercial account for the year ending June 30, 1866, was one hundred million, instead of eight million as shown by the figures. If it had been so, the rate of exchange would have reflected it, as surely as the thermometer tells the heat of the sun.

The resumption of specie payments involves the question of the proper function of gold in commerce, and hence the proper manner of treating it by the Treasury. On the latter point in our judgment turns almost everything else.

Of specie payments

A supposed necessity governs the present treatment of gold by our Treasury. We are obliged to pay the interest on the public bonds in coin; and it is a very plausible way to get coin to stop it at the customs. At first sight it looks as if we were getting it without paying the currency premium upon it. But such is not the fact. That premium, whatever it is, being added to the price

The cost of gold through the Custom House.

of the merchandise on which the duty is paid, it falls on the consumer; and thus it is, that the labors of production are forced to pay for all the gold imported into the country under the name of duties. The result is the same as if the duties were paid in paper money, and the government bought gold in Europe to pay interest on its bonds. Or it is the same as if the duties were increased by the amount of the premium, and the government bought gold at "the den"* in Broad street. To this it comes, put the case as we may—that the government supplies the aliment that keeps alive the speculation in gold, by cutting it off at the customs, and withholding it from the financial system, letting it out only that it may pass again over the barren circuit of a mere trade in the commodity.

paid for by production.

The trade in gold a monopoly by the help of the government.

Is it conceivable that this particular substance may not like any other, be made the subject of monopoly by a combination of capital and of circumstances that shall control and keep it within the power of comparatively a few people? Have we not frequently seen the same process carried with grain, cotton and other great staples?—never, it is true, on a scale of such magnitude as that which is now applied to the gold market, but considering the means employed, perhaps with equal effect. The combination in this instance embraces the Independent Treasury with its continuous absorption from commerce of one hundred million of dollars; this large amount not simply weakens commerce by its direct loss,

* This is the popular epithet of the Gold Exchange, suggested by the likeness of the confused shoutings and cries of the dealers, to the noise of a den of wild beasts.

but becomes a capital in the interest of the gold dealers. It doubles its power by weakening the system from which it is withdrawn and adding itself to the combination against that system. It has to aid it, the continued uncertainty and the distrust that belongs to a state of revolution not yet overcome; the apprehension of a possible renewal of civil troubles in some shape; the disorganized condition of the general mass of the public credit; the obscurity that covers the finances; an inefficient or secret policy in the treasury; and the money and credit capital of the dealers. All these elements are solidly combined and directed by the powerful instinct of gain, to support and perpetuate the dealings in gold as an independent and self-sustaining trade. How completely this trade has taken possession of the minds of men, is indicated by the number and respectability of those engaged in it, and by the popular concession that it is as legitimate and as honorable as any other trade. It is perfectly sterile in itself, and as purely a method of gambling as the faro table, subject to no laws whatever, and wholly moved by the expertness of those who practice it.*

It is a sterile trade.

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* The following description and characterization of the transactions in gold, is from the Report of Mr. Fessenden, in 1864, p. 22:

"In the course of a few days the price of this article rose from about $1.50 to $2.85 in paper for $1.00 in specie, and subsequently fell in as short a period to $1.87, and then again rose, as rapidly, to $2.50; and all without any assignable cause traceable to an increase or decrease in the circulation of paper money, or an expansion or contraction of credit, or other similar influence on the market, tending to occasion a fluctuation so violent. It is quite apparent that the solution of the problem may be found in the unpatriotic and criminal efforts of speculators, and probably of secret enemies, to raise the price of coin, regardless of the injury inflicted upon the country, or desiring to inflict it. All such

The ground on which we allege the gold held by the Independent Treasury to be a capital arrayed on the side of the dealers in it, is the same as that which applies to any other stock so held in sequestration. The monopolist and speculator in grain asks no more than that the general supply shall be kept out of the market. It is not material that it be in his own hands—so much the better if it be held by others, leaving his own capital free to deal in its floating remainders. In the case of gold, the government furnishes the capital that would otherwise be necessary for the dealers themselves to possess ; and all fears of its retirement from the business are allayed by the fact that it is sequestered by law. The terms of dealing are reduced to near certainty ; for the accessions to the stock in hand and the subtractions from it are a matter of record.

The Independent Treasury the base of dealings in gold.

Let the direct assault of this plan of action on the productive labors of the country be closely observed. It is self-evident that those labors must pay first for their own cost and expenses, then for every thing that is brought to us from other nations. They are therefore charged with the premium on all the gold imported, as we have already shown, in a perpetual drain ; and they are compelled to stand at a distance while seeing themselves balked of its return to rein.

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attempts should be indignantly frowned upon by a patriotic community, and the efforts of all good citizens invoked to counteract such nefarious schemes. A law, providing for the exemplary punishment of combinations for such a purpose might tend to vindicate, if it could not fully protect the public rights in this regard, and should be so far as possible rigidly enforced."

orate their spent energy, silent and helpless against the barren circuit in which it is confined by the sheer unprincipled force of gambling. A parallel case would be that of an individual sending his crops to market and having the proceeds of their sale arrested at his gate and turned away to supply the profits of a trade in which he has no share and which continually robs him, instead of being allowed to add those profits to his capital for the enrichment of his land and the reinforcement of his labors.

Gambling supports itself.

And how long may this unnatural circle exist? It is impossible to say. To carry any system of falsity, it is required only to surround it with the chances of profit. The hazards of loss have little influence to arrest the passion for gain. The misfortunes of one hour are compensated by hopes for the next; and if the examples of great capitals lost in spite of discretion and shrewd management are numerous, those of great capitals won by reckless daring without a cent to begin with, are scarcely less so.

Individual against common right.

A justification or defence of the gold dealings has been attempted by asserting the right of a man to buy and sell any commodities he may choose, and by the collateral assertion that gold in trade is not different from copper, iron, or grain. But if we might grant the individual right claimed, we shall oppose to it that which is greater—the social right. It is but half the rule to name the right of one man without also naming the right of every other, of which society is the natural guardian. Again, while in some relations gold is a commodity, in the science of econ-

omy, it is different from every other commodity, by the simple fact of its being the only common instrument for the discharge of debt. Every one who has a debt to pay and the means to pay it, by virtue of these means has a title to the use of gold for that purpose. In other words, gold being adopted by the world as a universal solvent of debt, it belongs to that use of it, and not to any miser's or gambler's hoard. To take it out of that use, is an injury to the common business of life. This argument against the personal ownership of gold as a commodity, is signified by the circumstance that the supply of it in any place is the result of the whole body of transactions. A single man in a community may acquire large wealth, but he cannot acquire gold unless it is brought to him by the favorable balance of the aggregates of commerce; and these being dependent on productive labor, its abstraction is a breach of natural as well as of social laws, and a crime against the State.

Gold belongs to the market and not to individuals.

The government in complicity with the dealings in gold.

A direct complicity of the government with the trade in gold was established under the administration of the Treasury by Mr. Chase in the issue of "gold certificates,"* with a design to furnish facilities for the payment of duties. These certificates were given out for deposits of gold in the Independent Treasury, which gold was repayable on demand without interest. They were a convenience in the custom-house, and being of the same denominations above twenty dollars as the United States notes, were used also in payment

* Under the Loan Act of March 3, 1863.

of interest on the public debt. But they were saleable in the market as gold, and almost immediately became the stock in trade of the gamblers. If a merchant had duties to pay, he was compelled to be a customer of "the den." The circulation of these "gold certificates" between the Treasury of the United States and "the den" was represented by the item among the receipts of the year ending June 30, 1866, of $98,493,660. And the amount in issue set down in the synopsis of the debt at that date is $10,713,180.

Boys gambling in gold certificates.

The singular manner in which these "gold certificates" stimulated the passion for gambling does not reflect much credit on their inventor. In the window of "the den" where the dealings were going on, was arranged a sign board on which was marked for the information of outsiders, the momentary changes of price that took place within. On the opposite curb, among a crowd of larger dealers, might be seen a number of half-grown boys with "gold certificates" in their hands, engaged in the retail branch of the business; and it might be a scandal to say that they were less respectable than the wholesale dealers.

The sequestration of gold only a supposed necessity.

We have described the arrest of gold at the customs, as a *supposed* necessity, for the payment of interest. That it ever was a positive necessity may fairly be questioned. There are reasons for believing that the cost of buying it in open market would have been less than that of providing it in the manner that was adopted. There is little weight, however, to be given to retrospective rea-

sonings in such a case. That there is an absolute necessity for continuing the practice henceforth, is not apparent; and the first step towards getting beyond it, is to abandon that opinion.

We must at some time or other return to a belief in the self-regulating ability of commercial interests.

The government does not hold the leading hand in commerce

The assumption that it is the government which has the leading hand towards specie payments has no support whatever in the history of our finances. Whenever the government has interfered with commerce and generally, to the extent of its interference, it has done mischief and not good. "Water does not more naturally seek a level," says Mr. McCulloch, "than does specie flow from one nation to another for the payment of balances created by an unequal exchange of commodities." This is to say that the resumption of specie payments depends on a credit balance in our commerce with other nations. Is it the government that directs our trade? Can the government command crops to grow, manufactures to flourish and ships to sail? Can it direct individuals in their occupations? Can it undertake to preside over all our banks, trust and insurance companies, railways, and the infinite operations of capital in private hands? It may indeed, injure these, by unwise legislation, and the bad administering of its proper functions; but its direct power over the mass of affairs that make up our commercial account with other nations is a cypher. The people must sink to a low point of capacity, when a few hundred politicians at Washington may be supposed to have

more brains than all the millions of practical and business-bred men who are carrying forward our great scene of labor and enterprise.

Our Government cannot, does not, and will not lift a hand to assist or direct the vast arrangements of our national society. No Congress can assemble, whose collective wisdom will not be far inferior to the wisdom of the multitude. To this multitude we must look for that gradual organization in details which an enlightened self-interest carries steadily forward in every branch of activity, from the plough in the furrow to the laden ship on the ocean with its bill of exchange turning the commercial balance in our favor.

The wisdom of the multitude superior to the wisdom of Congress.

The best and indispensable function of our Government at the present time, is therefore, to correct its own management of public affairs so that it shall cease to conflict with the natural laws and methods of commerce. No apology will be expected for the repetition of this idea in the various shapes that it is presented, and as often as it fits our general argument.

The best function of the government.

The organization of commerce is an antecedent necessity to the resumption of specie payments, and is to be brought about by a number of co-operating measures, the complete success of each being dependent on the action of all.

Comm'rce the master of specie.

We now repeat, that at some time or other we must return to a belief in the ability of commerce to take care of itself—and this for the purpose of indicating what appears to us the true and wise course to pursue with respect to the supplies of gold through the custom house. That these supplies ought to go into the custody and manage

The gold in the treasury ought to pass into the markets.

ment of commerce is too plain to be disputed. The only point of dispute relates to the method of getting them there. We assume that the first effect would be to strengthen our commercial system and put it on the defensive against adverse exchanges with foreign countries. To throw a current volume of one hundred million of gold into the hands of labor and trade, instead of leaving it in the stock of a vast and disturbing speculation must have an immediately beneficial influence on the whole body of interests in the country. The flow by the customs would go on without interruption. The private hoards of specie would be added to the common stock. And the only possible disadvantage to be apprehended by the Government would be, the necessity of buying coin to pay interest on its bonds. But this would be no more than it now does, as we have demonstrated. And even if it should be put to double the cost of the present method of supply, that would be of little consequence against the advantage reflected on the whole mass of our interests by so great a step towards the normal conditions of trade and exchange.

Comm'rce its natural guardian.

Most of the gold in the country is in political custody. Can there be any doubt that commerce would be its better guardian? It is now sequestered in vaults, banks, and private chests as a commodity, barren in its nature, and fruitful only in the injury that it reflects on every useful employment. Commerce would make it active, make it give life to our common labors, economize it and renew its depletions.

The alternate contraction and expansion of

the currency by banks has always elicited severe strictures from the mercantile community. The Bank of the United States under the direction of Mr. Biddle was frequently denounced, at one time for withholding its notes, at another, for throwing them out too liberally. The Bank of England has incurred the same censure. One of the objects of the famous Bank Act of 1844 was to prevent such fluctuation of the currency. Sir Robert Peel said—

Evils of fluctuation in the currency.

"There is no contract, public or private, no engagement national or individual, which is unaffected by it. The enterprises of commerce, the profit of trade, the arrangements made in all the domestic relations of society, the wages of labor, pecuniary transactions of the highest amount and the lowest, the payment of the national debt, the provision for the national expenditure, the command which the coin of the smallest denomination has over the necessaries of life, are all affected by the decision to which we may come on this great question."

The extent of fluctuation caused by the Bank of England, which called forth these imposing words, did not exceed two or three million of pounds sterling in the course of years.

The National Treasury though not a bank in name, exerts the function of a bank in the hoarding and paying out of currency. On the first day of July, 1863, it held a balance of money on hand of over five million of dollars: in July, 1864, it had a balance of near one hundred million; in July, 1865, it was less than one million; two months later, it was eight million. In 1866, on the first of July, it was one hundred and

The treasury causes fluctuation.

thirty-three million; on the first of October, one hundred and thirty-two million, and on the thirty-first of the same month, one hundred and thirty million. The fluctuation of the earlier of these dates was doubtless caused in part by the payment of loans into the Treasury, but that of the latter dates was normal to the method of business.

Room for fluctuation.

Between the periods for paying out the interest there is an accumulation. The amount of interest for the year ending June 30, 1866, was one hundred and thirty-three million. On such figures the balances might readily fluctuate sufficiently to cause serious inconvenience to business. The doctrine of the treasury has been that commerce has no right to the use of the "public funds" and ought not to depend on them; but they are converted into private funds by disbursement and the evil of fluctuation remains, changed only in form, not in amount. Subtracting the foreign interest, and estimating the accumulations as subject to distribution in quarterly periods, the fluctuation will be near thirty million; and the other disbursements of the government added, will increase it to at least forty million.

It is apparent that the country is destined to suffer immeasurable injury by the policy of the national treasury, in a forcible stagnation of near one hundred and fifty million of dollars; for in addition to the balance reported, there are internal revenue collections held in transit, and other funds between the treasury and a final distribution into the channels of trade. It is to be feared

that the fluctuation of the funds will keep up a permanent disturbance in the markets.

How is this fluctuation to be prevented?

How is fluctuation to be prevented?

Answer. In no other possible way than by making the transactions of the treasury a part of the general finances of the country; and this can be done only by adopting banks as the agency for the custody and disbursement of the public funds. Through the banks, these funds would be restored to their proper function as the instrument of commerce, and the credit in account created by them would be a part of the general credit held in restraint by the clearing house. Thus the whole volume of the finances would weigh in the exchange with foreign countries, and a vast economy would be the result.

Loss by adverse exchange.

The loss by an adverse exchange is always reflected on productive labors, as is plain from the fact that so much more of gold or its equivalent must go to pay our foreign debt.

Weak defence of the Independent Treasury.

It is affirmed in defence of the Independent Treasury, that whatever balance it holds is at the same time a check on the general credit by obliging the banks to keep so much more of reserve on hand, and a strength to the market because in case of distress the funds may be "let out" for its relief. This is a dangerous delusion. It might be less so when the necessities of the government were small, but when they are large, a time of commercial weakness would imperil the collection of revenue, and make the Treasury reluctant to part with its means, except by the regular disbursements.

It will be kept in mind that the plan of liqui-

The balances may be kept down.

dation proposed as a part of our general system of finance will reduce the balances of the Treasury to a very low point compared with their present magnitude. And these balances ought to carry with them the obligation of advances to the government up to a certain amount, in case of need, as is required by the British Government of the Bank of England. The deposits would then be a legitimate term in commerce, and, as a basis of loans would be less fluctuating than individual deposits. As a consequence the restrictive action of the clearing house would be directed against the more variable part of commercial credit, and the market generally would be characterized by more stability.

Fluctuation a political result.

In former years when the State banks were the depositories of the Government, the fluctuations of credit were caused much less by the fluctuation in the deposits, than by their capricious removal from one place to another, or by the apprehension of such removal. They became then the basis of temporary or call loans only, which went to swell purely speculative transactions. For example a bank might have half a million of the public funds on deposit. The managers were aware that a considerable part or even the whole of it might be drawn at very short notice or without notice, merely to transfer it to another bank, and therefore they would not risk loaning it to merchants, but put it on demand in the stock market. In fact, it was a matter of political favoritism and the division of profits, to place the public deposits. The bargaining for them was always in competition, and those who paid

most to the politicians, were likely to get them. In this underhand way, the banks carried on the game of filching from each other, and the consequence was, frequent transfers, which enforced the calling in of loans and a perpetual disturbance of the markets. If there had been no drawing but for the regular expenditures of the Government, the public deposits would have been the very least fluctuating part of the basis of bank loans, because the receipts were regular, and not like individual receipts subject to all the chances of disability on the part of debtors.

Public and private funds. The distinction between public and private funds though trifling in itself is followed by serious consequences. It is purely of political origin, and having been enforced in the administration of the treasury for a long period, the public mind has come to be deluded by it. All funds in the shape of currency, are of common right to the mass of business. Any absorption of them whatever, by individuals or banks, or by the treasury, by which they are stagnated, is an offense and injury to society. The rule of commerce, administered by banks, is to use currency as the instrument of credit and payment. It is received from the depositor at one desk making a credit for him on the books, and paid out for checks at another desk by which at the same time it discharges a debt, obliterates the credit which it had just made, and establishes by deposit, a credit for another dealer, either in the same or in another bank. It is the plough that pushes through the soil preparing it for seed, but it is not itself either soil or seed. It is the wagon,

or the railroad, or steamboat or canal, that brings produce to market, but it is not the produce. If the depositor keeps it in his iron safe, his debt remains undischarged, the man to whom he is indebted does not buy the plough, the seed is not planted, the wagon and steamboat do not move, for the produce is not forthcoming. The political distinction between public and private funds works itself out to this latter termination. The national treasury puts the currency in its vaults and thereby stops all the work that it would do, if it were not interrupted in its course. This is a piece of extraordinary impudence, since the treasury is a debtor to the people in nearly three thousand million of dollars, and a piece of extraordinary stupidity since the productive power that it paralyses is the only source of means to discharge that debt.

Testimony to the economy of banks.

A very apt piece of testimony to the superior efficiency of the management of banks over that of the Independent Treasury, is given by the Comptroller of the Currency in his last Report. He says of the National banks:

"They have redeemed and returned to the Treasury of the United States over fourteen millions of mutilated legal tenders, and have redeemed twenty-five millions of seven-thirty coupons, to the very great convenience of both the public and the Treasury Department. They have been instrumental in placing in the hands of the people more than eleven hundred millions of United States securities. They have received and disbursed from the revenues seventeen hundred and seventy-four millions of public moneys free of expense to the government.

The expense of transporting and concentrating

for disbursement this immense sum by ordinary means, without the agency of national banks, would have been at a moderate estimate, not less than three millions of dollars." p. x.*

That we do not exaggerate the crudity of theory by which the treasury management is governed, will appear by the following extract from the report of Secretary Chase in 1862, page 8: Crude theory of Mr. Chase.

"Loans negotiated in this circulation" (notes of the State banks) "would be simply exchanges of the debts of the nation, bearing interest and certain to be paid, for the debts of a multitude of corporations bearing no interest, and certain in part never to be paid."†

This must have been written with the notion that the national treasury was to keep the bank notes on hand, and submit to a loss by their insolvency, whereas in the natural course of expenditure they would have been paid out, to return again to their service as the instrument of exchange; and if their insolvency should follow, the treasury could not suffer. The error was serious because it prevented the Secretary from getting loans when the nation was sore in need; and that he might have safely used those notes is now plain from the fact that of the two hundred million then in circulation, one hundred and ninety million have been redeemed out of the means then held by those corporations, and And its consequences.

* This service was performed mostly by the old State banks under the new name of National banks, with the same machinery they had in use when Mr. Chase would not use them.

† Mr. Chase had just been accommodated by those miserable corporations with a loan of $150,000,000 when he could get it nowhere else.

besides that they are now able to hold one-fourth of the entire public debt as an investment.

Interest ought to be payable quarterly.

The funding of the debt in a permanent, unalterable, and simple form, is beyond all doubt the first step required to give it the highest standing as an investment. If all the kinds were consolidated in a six per cent. interminable bond, with the interest payable quarterly, we hazard little in presuming that the credit of the United States would at once be the choice investment of all markets. The half-yearly interval of interest is out of correspondence with the great item of rents, which are universally payable in the quarterly term. If no other reason existed than this one, it would be advisable to change the interest period on our public bonds to agree with it. It would bring the investment into a close practical relation with the convenience of the people, and make it a term of effective control in social science. But there are other reasons to strengthen and support this one. Thousands of people would be enabled to live on a cash expenditure with a quarterly income, when with the same at half yearly intervals, they would be forced, more or less, to buy on credit, and consequently to pay higher prices for their living. The economist will at once fill up for himself all the bearings of this proposition.

Half-yearly payments of interest not suited to the times.

The half-yearly period of interest is out of correspondence with the general requirements and habits of people. To use a common phrase—everything is faster than in old times. Swift travel, instant communication by telegraph, the

substitution of machinery for hand work, the universal quickening of transactions, all conspire to reduce life to a more concentrated, economical, certain, and scientific basis. The old credits in trade of twelve, eighteen and twenty-four months, are no longer granted. They have departed, with passenger sailing ships from the ocean. A quicker circulation of society has quickened the common movements in every branch of intercourse. In some parts of our country, the periods of rent and interest have already been shortened to correspond with this new state of things. The ancient and grey practice of the half-yearly returns of capital must disappear with its kindred relations. It has already lost its prestige in the markets, and the sooner our government opens its eyes to the fact, the sooner will its vast credit be republicanized and popularized.

The Secretary afraid of the export of gold.

Mr. McCulloch is sensibly alive to the annual drain of gold to pay the interest on our bonds held in Europe. He overlooks the governing fact which will yet govern while human nature lasts, that the "exportation" of our bonds is a consequence of the greater productivenes of capital in the United States. Our bonds going to Europe is the process of capital finding its best market, and we do not see how it can be legitimately interfered with. Their "exportation" as the Secretary calls it, is no more than the shipment of grain, though he puts the two in contrast.

The name of "interminable" bond, carries with it the idea of interminable debt. It has

no other meaning, however, than convenience of payment. If we establish a system of liquidation, that disposes of all objections on this score. We have elsewhere shown the advantages of a bond payable without arbitrary date over one payable at a certain time, and not sure to be paid at maturity. The conversion of the arbitrary into an interminable bond will secure the country against perpetual refunding, which is as bad as taking up new loans and in some respects worse.

Finance a science.

We have failed in the most significant point of our endeavor if we have not made out a fair ground for the presumption that our finances are capable of being organized into a logical and scientific system. That they have not more manifestly grown in this direction heretofore is sufficiently explained by the fact that they were subject to the laws of thirty-four different States, and to many circumstances of a natural and economical character, which gave discordant results. They have also been under the influence of political parties and opinions, involving changes and clashings directly at variance with general concurrent action.

Of positive terms

If we have a number of positive terms, each suited by its nature to a common purpose, and find that this purpose does not yet follow, it is a satisfaction to be able to mark clearly the obstacles to its fulfilment. This is a very easy matter in the present case, and to the mind that seeks the reason of things, a matter of very great interest and instruction.

Any mass of congruous facts will keep

pace as to convergence for a common end, with the growth of the natural circumstances from which they spring, and with the political influences which act on them. In other words the separate parts of the machinery of society, all of which have the initial properties of agreement, will organize and play together, in proportion as the whole plan of society is organized and united. The width of surface over which our population is scattered is the first term that we have to deal with. The second term consists in the natural circumstances of climate, soil and production. The third is politics. Let it not be hastily inferred that we are making a diversion unfavorable to the most practical of purposes. The spread of population, and the wealth of soil especially in mines, stimulate individuality of interests, just as the opposite terms develop social resources. No better example of these tendencies can be found than in the United States with its centrifugal forces, as compared with England and her compact manufacturing system. Before the rebellion, we had in addition the gigantic incongruity of slavery to contend with. The political influences that dominated over all, came from thirty-four different legislatures, from sectional opposites, and from the contention of people and circumstances which had grown to maturity from the most diverse and repugnant beginnings. How could a united economy flow from such intestine differences? Local rights, local currencies, local laws, local everything, by incessant conflict, made a congenial political union impossible; and as a

The material terms of the Union

Distraction of political influences

logical result, a scientific order was impossible. Yet, in spite of the centrifugal forces, social science put forth its finger, *finance*, and began the work of organization. To New York the the whole country came from every extreme point, for capital to build its railroads; and these were constructed chiefly on the ground of transport of all local productions to her storehouses and piers. The finger of finance pointed out the necessity of the Clearing House, and that institution became the centre and brain of what was now rapidly growing into a system of National economy. When the political elements took their revolutionary appeal, it was the New York Clearing House that stepped to the rescue, saved the nation, and moved the rebellion out of its way.

The Clearing House put down the rebellion.

Labor the master—finance the servant.

Thus it is the march of material things, aided by the moral interests and occupations of the people, and aiding them—it is this march of commerce as the merchant and banker of labor, that has solved the great problem of our national unity, and brought us to the porch of Financial Science. It is Labor employing Finance as its agent and treasurer, coming out from the injustice and the oppression under which it has been suffering while growing, now to take its stand, and to be seen and esteemed in its true character as the source of all wealth, improvement and social progress.

Natural and philosophical foundation of the Union

Is it extraordinary—is it not the usual experience, that imperfection and perhaps even rudeness shall characterize the first instruments that are constructed for any common purpose of

society? It is therefore not to be wondered at that our great new scene of labor should be slow in finding out the kind and the proportions of capital best suited to its development. If the principles of the old Banks of the United States were mainly sound, their forms and applications were short of what they were finally to be; the purposes they were to serve were not sufficiently developed; our exterior relations of commerce could not be anticipated. In short, we were not yet brought under the inspiration of those outward circumstances which were necessary to the unity of society—railroads which counteract the centrifugal influences of distance; telegraphs which admit of the extension of the family circle to thousands of miles without deadly violence to the family feeling, and which express a want instantly to the remotest sources of supply; machinery which increases the productive power of labor an hundred fold; and chemistry which concentrates in a handful the fertility of an acre of soil. These and many other appliances were absolutely indispensable to the social and consequently the political union of the United States. They have destroyed the greatest curse that ever disfigured history, and introduced us to relations which impose the duty of organization in pursuance of the laws by which they themselves exist.

Accession of scientific terms

Currency the first instrument in the natural order.

The first instrument on which we lay our hand in the natural order, is *currency*. It is that shape of common medium in exchange which the experience of the world to the present time has determined upon as the best discharge of debt. It is of universal sanction. It enables all men alike to

gratify that one normal desire of human nature—acquisition. It embodies, fixes in a tangible character, and makes powerful, every fruit of labor. But the currency itself must be a reality and not a shadow. Issued as the representative of gold, it must be convertible into gold. The moment that it ceases to be convertible, it vitiates the return of labor, and begins necessarily to corrupt everything else. If a country becomes entangled in war, the necessity is the greater that convertibility shall be maintained. Had not Mr. Chase in 1861 insisted on despoiling the banks of their coin, giving for it only a pure credit in exchange, he need not have been the victim of the absurd fatality that a nation, to carry on a great war, must suspend specie payments. He might have worked to a demonstration, the truth that the support of war is nothing more or different than to carry on commerce, and that the methods which are strongest ought not to be displaced by weaker methods as the task increases in magnitude.

It must always command gold.

This reasoning brings us to the necessity of a radical change in the constitution of banks; and that is, the repeal of all laws which impose the redemption of pure forms of credit in specie. Nothing can be more anomalous than the requirement that a bank shall pay its deposits in gold, and nothing so unjust to labor. The theory runs into the extremest absurdities the moment it is put in practice. While it is not enforceable by law that one bank shall redeem the bills of another, the latter may be deposited in account, and the check of the depositor is then allowed to

Deposits not entitled to be paid in specie.

How depositors cheat the bill holders.

enforce payment of specie. If a bank be liberal enough to its dealers to discount their promissory notes exchanged with each other on the basis of pure credit, they have the legal right to demand specie for the proceeds in the same hour; and this in spite of the prior obligation of the bank to pay specie for its circulating bills, the holders of which are then cheated out of their rights. The anomaly is carried to a singular extreme in Savings Banks, whose dealers deposit their funds for the express purpose of having them invested in mortgages on real estate, which cannot be collected by law under several months; but as soon as the investment is made under specific agreement with the dealer, the dealer ~~has~~ the legal right to break his agreement by an immediate demand for specie to the full amount of his deposit. The general result of this theory is, that the depositors of a bank may draw out all its coin for their pure credits in account, while the circulating bills being scattered widely among laborers and mechanics and over the country generally, become, under the law and in common parlance, "insolvent," "broken," "worthless rags," &c.

is supposed to have

Separation of currency from deposits.

Any organization of our finances, with this root of error at the bottom, will put the whole system of commerce at the risk of perpetual disturbances, and bring defeat at last. Now, when it may be said that they are in a state of reduction and disorder, is the favorable time to apply natural and scientific laws to them. The first measure ought to be, the separation of the currency from all complication with the deposits of

The Savings banks have the right to demand 30 or 60 days notice of withdrawal from the depositor.

banks. Science does not admit of absurdities. The highest proportion of specie ever held by the banks of the United States was one hundred and four million in 1859, when their deposits and circulation reached four hundred and fifty-three million. The same proportion would give two hundred and ten million of specie as a redeeming fund for the circulation and deposits of the National Banks in October last which then stood at nine hundred and ten million. The deposits of the Savings Banks being added, would give the proportion of one hundred and seventy-six million of dollars in specie to eleven hundred and ten million of circulation and deposits. Admitting the prior claim of the currency to redemption, the case would be as follows:

The mass of insolvent liabilities.

Amount of National Bank circulation October 1, 1866	$280,000,000
Amount of specie supposed	176,000,000
Unredeemed of bank bills	$104,000,000
Ditto of bank deposits	830,000,000
Amount of bank bills and deposits legally bankrupt	$934,000,000

The rule of panics.

But in the panic that precedes a suspension of specie payments the depositors do not stand out of the way to give a preference to bill holders. "First come first served" is the rule, and its consequence is the absorption of the entire specie of the financial system, mostly on the demand of pure credit, which has no moral or equitable right under such circumstances to a dollar of coin.

The law that makes credit deposits payable in specie has no restraining influence on the loans of a bank; but such influence is effectually exerted by the daily exchanges of the banks with each other, at the Clearing House. It is therefore a useless law for any good, while it imposes weakness, danger, and injustice on commerce, and on the productive labors of the people.

The Clearing House effectually restrains bank loans.

We are now prepared to assert the right of labor, that the specie of the country shall be held primarily, for the redemption of the currency, and in the interest of trade for the payment of the balances due to foreign markets, and incidentally only, for other purposes. The integrity of the bank bill is the first axiom of financial science. It is labor and not trade that earns the gold. Currency is the capital of labor, and it is to deprive labor of its own, to injure its capital. Trade and commerce produce nothing of themselves; they owe everything to labor, and yet on our present theories of finance, they hold the exclusive mastership of gold, manipulating it to serve credit and yielding only the fiction of it to labor. When gold leaves the country, it is to pay the debt of deficient or unsuccessful labor; and when it returns, natural justice should restore it to its owner. The portion of it that circulates in the market is the guarantee of the integrity of the bank bill, and the proof that commerce is discharging its obligations to labor by maintaining honestly the responsibilities of which it is the guardian.

Labor alone earns gold.

An attempt to rest paper money on any other basis than that of gold is a departure from the

Specie indispensable as the base of paper money.

term of redeemability. The public bonds are intended as a security behind gold, not as a substitute for it. We look with anxiety for the only satisfactory test that can be afforded of the integrity of the national bank currency, which is nothing short of redemption in coin at the centre of liquidation. The redemption in "legal tenders" is a fiction, as is also the security in bonds, so far as redemption is concerned; and it remains to be seen whether a currency can be maintained at a uniform value when its redemption in coin is assured only at a point distant from the place of issue, and when the terms of its circulation are such as to make it inconvenient and costly for the bill holder to follow it to redemption. Hence, the undoubted validity of the public bond as a security, is an artificial obstacle to a sufficient test of the ability of the issuing bank to redeem its bills; and the credit of the bills may even give an unmerited standing to the bank and enable its managers to carry on extensive frauds.

Terms of the financial system.

The terms from which our financial system is to be composed, are, in their natural order:

1. Productive Labor.
2. Capital.
3. The National Banks.
4. Commerce.
5. Revenue.
6. Expenses and liquidation.

Several of these include auxiliary or subordinate terms. Capital includes credit as one of its

forms; the banks include the issue of paper currency and the presumption of specie payments; commerce includes industrial labor and the small trades; and revenue is but another name for taxation.

Does not the mere enumeration of these terms suggest a logical and scientific order?

Productive labor is the primary interest of social existence, the basis of all the organization which follows; it supplies the advantageous employment of capital. The banks are next in succession as the source of currency, the chief managers of credit, and the aids of commerce. From commerce comes revenue, and by revenue the expenses of the State are met and debt discharged. **They are in logical connection.**

The government issues of legal tender notes are not named, because they were intended to serve a transient purpose only, and will eventually be absorbed in the debt.

The successful operation of our financial system depends on the responsiveness of these terms among themselves, and on their united action to a common end. This is what we mean by their organization. Separately they can exert but little influence, and if not harmoniously combined are liable to clash and damage each other. **And must respond to each other.**

Again, we call attention to their natural and logical order, as they have been developed by the necessities of social life. There has been no accident, no merely artificial management in their production. They flow from the only source where they could originate, and mingle and co-operate with each other by their inherent **They tend to a scientific order.**

laws and their common relation to human wants; and thus they have been growing at every step into a more positively scientific arrangement as we now find them. The vocabulary itself is unimportant. Other terms may be interpolated or substituted, but the facts will remain as the counterpart of social organization and the base of government. As these facts continue to act in a common direction they become consolidated and knit together by all the interests of society, moral and intellectual as well as material, and the system so composed is capable of achieving great results in proportion as its parts are maintained in harmony among themselves.

Power of the system as a whole.

Our conclusion is manifest. It is by the power of the system as a whole, and not by the exertion of particular parts only, that the common purposes of the resumption of specie payments and liquidation of debt are to be carried. These are results—not means to an end, but themselves the end. We might liken the terms of the system to the limbs of the human body and propose for the end the lifting of a heavy weight. It is idle to insist that the weight shall be raised until all the limbs and muscles are put in complete accord; whence the power to do the work is found. But the power to do and the act of doing are two things. When the former is attained, we have the essential condition required, and the overt performance is not necessarily or always exacted.

The Clearing House the crown of the system.

The crowning part of the system is the New York Clearing House. Situated at the door of the foreign exchange, it receives the first intimation of an adverse balance, and calls on com-

merce through the banks for the means of payment, which are furnished by the reduction of loans. The call is transmitted to the remotest extremities of the country. Every resource is touched at the same moment, and each contributing a proportion, no part of the system is subjected to an injurious strain. This action of the House, always impending, not only prevents the expansion of loans beyond prudence, but determines their character for soundness and ability of payment when an emergency comes.

Interest on country bank balances ought to be prohibited by law.

It has been proposed in Congress, on the recommendation of the Secretary of the Treasury, to prohibit the payment of interest on country bank balances, by the redeeming institutions—a very wise measure, and necessary to prevent the doubling of loans on the same basis. Long since, the Clearing House demonstrated this point of weakness in the financial system, and so far enforced its correction as to put the non-conforming banks under tacit censure. A balance on interest implies that it is not held in reserve, and it is therefore a practical evasion of the law.

Economy of the system.

It is not necessary to recapitulate at large the correspondences of a united financial system in the hands of commerce, with all the purposes and conveniences of the treasury department. They are already familiar to every intelligent man who has bestowed even a moderate degree of attention upon them. We shall, therefore, conclude this branch of our subject by a general reference to those parts of the volume which treat of the particular services required by the government: and more especially to those which

show how the prodigious accumulations of capital stagnated in the Independent Treasury may be restored to the uses of productive labor, and kept active, without risk of loss, without injury to the markets, and with a great saving of expense.

Testimony of the Comptroller.

On this point of economy, with but few words of our own, we may put in the testimony of Mr. Hulburd, Comptroller of the currency, who declares that the disbursements on public account effected by the agency of the National Banks in 1866 without a dollar of charge, would have cost by the Treasury plan, "at a moderate estimate, not less than three millions of dollars." We do not doubt that the discontinuance of all the officers' salaries and miscellaneous expenses of the Independent Treasury, would save annually more than three times that sum. There is no reason why all the revenues of the government may not be paid in at the bank counters, whether they are for duties, taxes, or sales of land. Hundreds if not thousands of receivers might be dispensed with, and a vast amount of complicated machinery abolished.

The banks legal agents of the government.

By act of Congress, the National Banks are now legal depositories of the Government, but cannot become its sole agents without the specific repeal of the Independent Treasury Act. The only issue left is one of practical convenience and economy, not of principle or of law. Is there a single service needed by the Government that the banks cannot execute better than the Treasury? Not one. The custody and payment of gold is the particular service for which the Treasury is

supposed to be best suited, but the reverse is the fact, patently so, from the circumstance alone, that commerce determines the exchange between all places domestic and foreign, and gold follows the exchange. When the Government has a payment to make against the current of exchange, it must transport the gold to its due place, whence the receiver must retransport it to that from which it was taken. As a general fact every payment outside of the city of New York will require this double transport, by which nobody is benefitted but the freighters, and possibly thieves who lie in wait for their chance to steal it. The banks would effect every payment by check, keeping the gold at rest in New York ready to redeem it if required; but it is well known that not one Government creditor in a thousand wants gold when specie payments are in force. It will be hereafter an inscrutable folly for the government to insist on gold as its exclusive medium of payment, since it has public bonds in its own custody as a security for the currency—since, in truth, it will be the father of all the currency afloat in the country. These observations will be understood to apply to a normal state of commerce, and not to that of specie suspension.

Gold follows the exchange.

Commerce is the great elephant that upholds all the operations of finance. It combines all the improvements of ingenuity—railways, telegraphs, cables, steamships, and all the interests of society, moral and physical, and concentrates them on each particular purpose to be achieved. The Treasury attempts the opposite theory of

Commerce the elephant.

applying one disjointed agency in counteraction of the common forces—in which it has never succeeded, but in spite of appearances always failed disastrously.

The present derangement of business

It cannot be denied that the present condition and treatment of the national finances is unsatisfactory to a painful degree. An extraordinary depression rests on the public mind. All the great markets are heavy, and troubled with apprehensions of impending calamity. Our large manufacturing establishments are working generally at a loss, or on reduced time. The commission houses consider themselves fortunate if they meet their actual expenses. In the mechanical branches of business, the same condition rules. The shops are dull and stocks are depreciating. Laborers throng our cities in a vain search for work. That there are commercial causes to account for some part of this trouble is unquestionably true; but there is an overruling cause beyond those, which, we are constrained to believe is in the manner of conducting the affairs of the National Treasury. We do not hesitate to declare our conviction that the whole course of the Treasury department from the beginning of the war to the present time has been such as might logically produce the results we have here faintly sketched. This judgment has not been formed since these results were witnessed The principles of finance, which are identical with the principles of commerce, were as well understood in 1861 as they are at the present time; and by the light of those principles, the very conse-

is due to the Treasury management.

quences that have followed their violation were then foretold, and urged upon the consideration of the Secretary of the Treasury, but without effect.

Misconception as to the efficiency of the Treasury.

A total misconception has prevailed relative to the action of the Treasury in the negotiation of the government loans at the outbreak of the war. It is important that the facts be understood, since they have been insisted upon with great pertinacity as evidence of the ability with which the department was managed, and so have served to give it a prestige in the minds of the people which it has never deserved. The following extracts in point are from the pen of Mr. James Gallatin, President of one of the leading banks in New York, and an active participator in the measures of which he speaks.

The present embarrassment foretold by bank officers

"In the finances there was total paralysis until the New York banks and merchants took hold of the negotiation of the loans, uniting the banks and capitalists of Boston and Philadelphia with those of New York in harmonious support of the Government. * * And I will here say * * that the union of these banks, and the inception and completion of the arrangements for making the loans to Government, all originated with the bank officers. Mr. Chase was in no way the author of the movement. All he had to do was to come to New York, meet the representatives of the banks and sign the requisite papers completing the loans. All that he did was to insist on drawing their specie from them for the proceeds of the loans, which the most experienced bank officers told him must result in disaster and in the suspension of specie payments."*

* *The National Debt, Taxation, Currency, &c., by James Gallatin.* pp. 61. Hosford & Ketchum, Publishers. 1864.

The success of negociations for loans due to the people

What is here said of the loans first negotiated, is true of all the subsequent loans. The people poured their money into the treasury with the same exalted patriotism that urged them to the battle-field. While their sons did the fighting, the fathers did the financiering, and the mothers and sisters followed the camps. The supply of money was but a part and not the larger part of the popular "uprising" that put the whole nation above self in every shape, so that it withheld neither treasure nor blood, deeming no cost too great for the ends of liberty and justice. To the people and not to the treasury is the praise due for such noble action. So little ability did the treasury exert, that it became an obstacle to the people. It violated the principles of commerce at the outset, and by forcing the banks to suspend specie payments, it dealt a destructive blow to the public credit. It threw conflicting loans into the market, and thereby put the people in the power of brokers and speculators. It halted on a fraction of one per cent. interest while the nation was bleeding in every limb. All the reluctance ever manifested at any time by capital to invest in the national bonds was chargeable to the distrust excited by the bad management of the treasury. Finally the Treasury broke down, and the financial minister who had flourished in honors that belonged to the people, retired from his position.

and not to the Treasury.

The two official reports of Mr. McCulloch afford the fullest testimony to the disastrous consequences of the treasury policy. There has

been no change in that policy since his accession to the Secretaryship, and no pause in the tumble of misfortune. The principles of commerce are not applied in the administration of affairs. On the contrary they are utterly ignored. But two single fancies fill the mind of the Secretary, and limit the scope of his abilities ;—the currency, and that trifling paralogism that "one generation has no right to transmit debt to another." In a final chapter suggested since the observations heretofore made on the currency were put in type, we shall further expose the fallacy of the treasury theory in relation to it. We name again the "one generation" fancy, only to indicate how it operates in connection with the terms composing our financial system. It is the base of Mr. McCulloch's theory of liquidation, and leads to his contemplation of that term as the master term of the whole series. Taxation is graduated to the conceit of extinguishing the debt in twenty-eight years, and consequently this term, which in itself is a purpose only, and the last of the series, is made to dominate over all the others. That which can come only as an effect, the Secretary imagines to be a cause, and accordingly he sends it back crashing and destroying as it goes, through trade and industry and commerce, to spend its arbitrary force on the productive labors of the country, while at the same time the natural and most vitalizing aliment of those labors is cut off at the custom-house, and by the Treasury policy, maintained in the unfruitful circle of a vicious speculation.

Treasury policy continues in the same disastrous course.

Only two ideas.

It is an important observation to make at the

present time, when our government, by the fortuitous hold it has acquired on the public economy, undertakes to sway a power over commerce to which it has no right under a Republican theory, and for which it has no intelligent qualification—that in all ages and countries, commercial organization has originated, been carried forward and made effective, not by the politicians, but by the people; not by legislators and rulers, but by laborers, capitalists, mechanics, and merchants. It is something more than a sentiment and not intended as a prediction—that the restoration of our economy to harmony within itself, and to that efficiency which alone can gain for it the confidence of the general markets of the world, to which it is entitled and destined, can never be brought about until the management of our financial system is vested where it naturally belongs, in the hands of commerce as the merchant and banker of labor, instead of in the hands of politicians and demagogues who see in it only an instrument of their own ambition. But if the assertion be viewed as a prediction we have not only experience, but science also to commend it to serious reflection.

Prosperity the work of the people and not of the government.

But one door open for resumption of specie payments.

There is but this one door open to the fair and honest resumption of specie payments.

ADDITIONAL CHAPTER ON THE CURRENCY AND PRICES.

We have been led into a further and more special examination of the amount of currency in use since the suspension of specie payments with reference to its supposed influence on the prices of the market.

Summary of actual circulation.

The suspension of specie payments took place in the middle of the second fiscal year, and we estimate the amount of coin that entered into the currency for that year at one-half of what is set down for the previous year.

1860–61.	Amount of specie in use	$275,000,000
	Bank note circulation	202,005,767
	Curreney for the year ending June 30, 1861	$477,005,767

1861–62.	Specie	$137,500,000
	Bank note circulation	183,938,945
	United States notes issued under acts of July 17 and August 5, 1861, and February 12, 1862	60,030,000
	Currency for the year ending June 30, 1862	$381,468,945

1862–63. Bank note circulation, leaving out $71,-104,408 for the notes of the Southern States	$167,572,810
United States notes issued under Act of February 25, 1862	291,260,000
Fractional currency	20,192,456
	479,025,266
Less Treasury notes redeemed	58,276,390
Currency for the year ending June 30, 1863	$420,748,876
1863–64. Bank note circulation assumed to be the same as the year previous	$167,572,810
United States notes outstanding June 30, 1864, by the official table	431,178,670
Fractional currency	22,894,877
	621,646,357
Less currency in the Treasury	56,236,440
Currency for the year ending June 30, 1864	$565,409,917
1864–65. Amount of actual circulation reported by Freeman Clarke, Comptroller of the Currency for the year ending June 30, 1865	$460,884,229
1865–66. National Bank notes outstanding by Comptroller's Report	$280,129,558
State Bank notes outstanding by Comptroller's Report	10,000,000
United States notes per official tables	400,619,206
Fractional currency	27,070,876
	717,819,640
Less legal tenders held by Banks ... $205,770,641	
Balance in Treasury, supposed not less than in 1864, 56,236,440	262,007,081
Currency for the year ending June 30,1866	$455,812,559

SUMMARY OF CURRENCY IN CIRCULATION.

1860–61.	Year ending	June 30, 1861	$477,005,767
1861–62.	do	June 30, 1862	381,468,945
1862–63.	do	June 30, 1863	420,748,876
1863–64.	do	June 30, 1864	565,410,917
1864–65.	do	June 30, 1865	460,884,229
1865–66.	do	June 30, 1866	455,812,559

Errors of the currency alarmists. By adding to these amounts, the compound interest notes, and the "legal tenders" held in reserve by the banks, amounting together to nearly four hundred million, the currency alarmists have made it appear that the paper money afloat is nearly twice as great as it really is. The compound interest notes were hoarded for investment almost from the hour of their issue. That they added to the circulation for a short time may be admitted; but the "legal tenders" could be let out only in violation of law.

The Secretary an alarmist. Secretary McCulloch himself has done much—perhaps more than any other person, to spread alarm through the country about "our inflated and irredeemable currency," and about the "dangerous expansion of bank loans." In his Report for 1865, he says:

"On the 30th of September last the loans—estimating their national securities as a loan to the Government, amounted to $913,045,629 * * while the circulation, bank and national, had reached the startling amount of $700,000,000. Nothing beyond this statement is required to exhibit the present inflation or to explain the causes of the current and advancing prices."

Official blundering and It is a stretch beyond common practice for the Honorable Secretary to count the public bonds deposited by banks in pledge for their

circulation as a part of their loans. The loans of a bank are understood by every body else to consist of commercial credit in account based on its capital, and so distributed as to be in constant process of maturity and renewal; and these are not represented by any circulating currency as are the bonds in question. But to confound these two funds is not the only blunder of the Secretary. The part of the $913,045,629 to which he applies the name of *bank loans*, is set down in the Comptroller's Report ($276,219,950) as security for $190,847,055 in circulating notes, and this is represented in the "startling amount" of $700,000,000 of currency. In his zeal to show "a dangerous expansion" of bank credits, he adds the $276,219,950 both to the loans and to the currency, when one is a security for the other. —In the same Report of the Comptroller is an accurate statement of the floating currency, showing it to be $460,844,229 and no more, whereas the Secretary announces it as $700,000,000.

He makes the total "expansion" to consist of loans	$913,045,629
Circulating currency	700,000,000
	$1,613,045,629

The proximately true statement is as follows:

Bank loans	$636,825,679	
Currency	460,844,229	
		1,097,669,908
		$515,375,721

misrepresentation. It is a grave and extraordinary blunder for the head of our Treasury Department to declare

officially to the world that our bank loans and paper currency are five hundred million greater than they really are. The only refuge he has, is in the theory that currency locked up, is currency in circulation; and this would seem to be overthrown by the fact that the currency of a bank, when in its vaults, is actually redeemed.

We do not doubt that these figures are wearisome to many readers, as they are to us; but they belong to the subject, and are necessary to its illustration.

So much for the currency. The next branch of the subject relates to prices.

The "Report on the Finances" for 1863 contains a set of tables showing the particular and average price of eighty-nine leading products and articles of commerce in each year for a period of thirty-nine years—from 1825 to 1863.

Price of products for thirty-nine years

The Secretary of the Treasury was indebted to Mr. J. Smith Homans of the Banker's Magazine for this invaluable addition to his report. We are gratified to be able to relieve it from the suspicion which may justly attach to any anonymous compilation of this kind from the mere circumstance of its finding a place among the official documents emanating from our Treasury Department, which are generally so little characterized by the manifestly patient and conscientious labor bestowed by Mr. Homans on these tables. They occupy one hundred and seventeen pages of the "Report." The list of articles embraces all kinds of food, of foreign and domestic origin, and of luxury as well as of prime necessity; textile

fabrics; metals raw and manufactured; glass, hides, indigo, oils, wines, &c. First, the highest and lowest price of each article for every month of the year is given, with the chargeable duties annexed; then the averages of each year are made up from the monthly averages. To get at the cost of living, we select fifteen articles which enter into ordinary consumption, and take their gross price for each year

The following, for several years, shows the process:

	1825.	1837.	1844.	1866.
Sup. wheat flour........bbl.,	5.13	9.14	4.67	10.62
Northern corn meal......do.,	2.88	4.87	2.60	7.55
Anthracite coal.........ton,	9.16	9.68	5.06	11.25
Brazil coffee............lb.,	17	11¾	06½	45
Cotton.................do.,	18¼	12	06¾	1.54
Dried codfish..........cwt.,	2.49	3.42	2.67	7.00
Leather................lb.,	23¼	19	15¾	40½
Molasses..............gall.,	35½	37	29¾	1.07
Mess pork.............bbl.,	13.73	21.08	9.28	41.63
Mess beef............. do.,	8.78	13.50	5.68	15.50
Butter.................lb.,	15¼	18	10	31
Rice..................cwt.,	2.60	4.01	3.03	12.00
Sugar..................lb.,	08¼	06¾	05¾	23¼
Tea...................do.,	62½	30	37	76½
Wool.................. do.,	33½	43½	30	97½
	$46.90½	67.48	34.40½	111.30

Assuming the sum of these prices to represent the cost of living, or as nearly so as it can be got at, we are able to find that cost for each year embraced by the tables. The prices for 1864, 1865, and 1866 we supply from the Banker's Magazine, published since the date of the Treasurer's Report.

1825....46.90	1839....63.43	1853... 49.24
1826....47.24	1840....50.98	1854... 53.84
1827....49.89	1841....44.12	1855... 57.17
1828....49.93	1842....36.99	1856. 53.70
1829....48.94	1843....36.14	1857... 60.06
1830....45.71	1844....34.40	1858... 49.46
1831....45.87	1845....41.39	1859... 47.87
1832....50.30	1846....40.53	1860... 46.85
1833....47.82	1847....51.95	1861... 44.43
1834....44.21	1848....43.41	1862... 47.76
1835....52.06	1849....42.58	1863... 55.26
1836....62.70	1850....41.35	1864...104.57
1837....67.48	1851....43.02	1865... 82.86
1838....65.27	1852....50.48	1866... 90.10

The cost of living. The average cost of the fifteen articles named for the thirty-nine years ending with 1863, was forty-nine dollars a year. We may approximate very nearly the total expense of living, from this base, by multiplying the average by ten, and assuming four hundred and ninety dollars as the cost of support per man. On this rule if the cost of living of one person was $552.60 in 1863, it was $1,045.70 in 1864. The general experience will pronounce this proportion to be very near the truth. We assume ten as the multiplier because of the facility which it gives in the comparison of one year with others.

Currency and prices compared. We are now able to put in juxtaposition, the volume of the currency, and the cost of living for those years in which the latter has been so greatly increased, and for several preceding years. To avoid the necessity of repetition, and at the same time to supply all the influential causes which act on price, or are supposed so to act, we add the amount of internal taxes col-

lected, and also the bank loans. It is assumed that the specie of the country from 1854 to 1860 was about the average of two hundred and seventy-five million.

	CURRENCY.	COST OF LIVING.	TAXES.	LOANS.	
1854	479,689,207	538.40	0	557	million.
1855	461,952,223	571.70	0	576	"
1856	470,747,950	537.00	0	634	"
1857	489,778,822	600.60	0	684	"
1858	430,208,344	494.60	0	583	"
1859	468,306,818	478.70	0	657	"
1860	482,102,477	468.50	0	692	"
1861	477,005,767	444.30	0	697	"
1862	381,938,945	477.60	0	648	"
1863	420,748,876	552.60	*41 mil.	649	"
1864	565,409,917	1,045.70	117 "	649	"
1865	460,844,229	828.60	211 "	637	"
1866	445,812,559	901.10	309 "	637	"

* These amounts of internal revenue are taken from the Reports of the Commissioner, excepting that of 1866, which is from the Register of the Treasury Department. The Register's receipts for the three years 1863–4–5 are twelve million less than the amount given by the Commissioner, who makes the following explanatory note:

" A discrepancy exists between these amounts and those from the office of the Secretary of the Treasury. The same receipts are not always reported and entered on the books of the two offices on the same day. The difference is only one of account. Other discrepancies of like character may be observed arising from the same source."

We have not been able to reconcile the two statements any better in the gross than in each year. The present Commissioner, Mr. Rollins, says that the cost of collecting the revenue does not exceed 2.75 per cent. If this be allowed for, a difference of near four million of dollars is still left with the explanation that "it is only one of account." We do not question the accuracy of the

The comparison first in point is between the currency alone and the cost of living. The fluctuations do not correspond from year to year, but move adversely and indifferently. The adverse movements are as follows: From The fluctuations.

1854 to 1855 cur. falls	17	millions,	price rises	6	per cent.
1855 to 1856 cur. rises	8	"	price falls	6	"
1858 to 1859 cur. rises	38	"	price falls	3	"
1859 to 1860 cur. rises	14	"	price falls	2	"
1861 to 1862 cur. falls	95	"	price rises	7	"
1865 to 1866 cur. falls	15	"	price rises	9	"

The concurrent movements are:

1856 to 1857 cur. rises	19	millions,	price rises	11	per cent.
1857 to 1858 cur. falls	59	"	price falls	18	"
1860 to 1861 cur. falls	4	"	price falls	5	"
1862 to 1863 cur. rises	39	"	price rises	16	"
1863 to 1864 cur. rises	145	"	price rises	90	"
1864 to 1865 cur. falls	105	"	price falls	21	"

Here are just as many adverse as there are of concurrent movements. But if the amount of currency regulates the prices of the market, we ought to find another set of correspondences. We ought to find those volumes of currency which are equal or nearly equal, supporting the same general price in the markets. For example, the following groups of years should give about the same cost of living, whereas they are widely different: Currency theory disproved

accounts, but we do question the method that makes such an unsatisfactory explanation necessary. Yet even this might not challenge our inquisition if the general cypherings of the Treasury Department were not mystical in an extraordinary degree.

In 1854	the currency	of	479	million, gives	cost of	$538.
1860	"	"	482	"	"	468.
1861	"	"	477	"	"	444.
1855	"	"	462	"	"	571.
1865	"	"	461	"	"	828.
1856	"	"	471	"	"	537.
1859	"	"	468	"	"	478.
1858	"	"	430	"	"	494.
1863	"	"	421	"	"	552.
1866	"	"	446	"	"	901.

It must be apparent to any impartial mind that some other cause than that of the currency has been active in effecting such changes of price as are here exhibited.

Bank expansion theory disproved

The theory of Mr. McCulloch that "nothing beyond * * the present inflation (of the currency and the bank loans) is required to explain the causes of the current and advancing prices" is not supported by the appearance of the loans, which we place in another column (expressed in millions) and which exhibit a decline after the year 1861. We do not however repose implicit confidence in these returns. We are aware that it is a practice of some banks, and perhaps not of a small number, to force a flattering statement of their affairs by transposition of items, or by some trick of "financiering" to give a substantially false face to their returns. And from some parts of the country, the official circulars asking for returns are not answered at all, through fear of invoking an intermeddling examination.

But now we come to a sensible cause which

every man who pays taxes has a personal knowledge of, explanatory of the increased prices of the market—that is, the internal tax.

For nearly four years while our terrible civil war rolled on, no unusual advance in prices took place. The cost of living in 1863 was but little above the average of thirty-nine years past, and much less than it was from 1836 to 1840, and in several other years of that term ; the country was maintaining an army of a million of men, and by the vastness of its labors making the greatest labors of other nations seem of pigmy proportions ; the negotiations for the government loans were thrust in every man's face until the debt reached the enormous magnitude of two thousand million of dollars ; party distraction divided the north against itself ; the rebel power was still unbroken, and despair held a place in thousands of brave minds ; yet, marvellous to say, the cultivation of the fields went on, mechanical and commercial pursuits flourished, and the people continued to live in their long-accustomed plenty without increase of cost. But as soon as the home tax was levied, all was changed. The capital of labor, trade and commerce was touched, and the consequence became immediately apparent.

No advance in prices before the collection of internal revenue.

The foregoing record leaves little to be said in explanation. The two columns—of the excise and the cost of living, are perfectly concurrent. No sooner does that effect which we have ascribed to taxation in previous parts of the volume, viz. : that it takes capital out of its natural channels of fruitful employment and puts it in a barren

Taxation and price concurrent.

service, no sooner does this begin, than price also begin to advance with a steady pace. It does not appear to depend either on the currency or the bank loans. Indeed, if we except the year 1864, when a pure fright caused by the resignation of Mr. Chase from the Treasury and by the jump of gold from 198 to 285, induced a spasm of high prices to rule for a short time—if we except that year, the general volume of "bank expansion" to which Mr. McCulloch ascribes such omnipotent influence, was in arrest; the loans were not so high as when prices were lower, and the currency was declining while these were advancing. What can be more demonstrative than this record? And, fortunately we have it in our power to put it beyond controversy.

A closer demonstration.

Before the first of September, 1862, the price of living was below the average of the previous thirty-eight years. On that day began the collection of the internal revenue. The following table shows how immediately the pen of the tax-gatherer like the wand of a magician started the markets from their old rest, and set them on the track towards their present exorbitant scale. There was no record of the receipts, monthly, until May, 1863, and up to that time the comparison is general; but for the fourteen succeeding months, we are able to place the cost of living and the collection of the internal tax in close comparison.

COST OF LIVING.		COLLECTION OF REVENUE.
1862. May	$448.80	
June	455.60	
July	459.30	
Aug	484.30	
Sept	494.50	Beginning of internal taxation. From Sept. 1, 1862, up to May 1, 1863, the aggregate collections amounted to $27,133,998
Oct	511.50	
Nov	518.10	
Dec	526.60	
1863. Jan	529.70	
Feb	574.40	
Mar	573.60	
April	534.80	
May	524.10	4,963,895
June	518.70	4,488,411
July	551.50	5,298,967
Aug	508.30	5,604,201
Sept	515.00	6,136,205
Oct	557.20	9,511,768
Nov	614.90	7,953,983
Dec	641.60	9,034,501
1864. Jan	673.40	9,177,765
Feb	690.60	9,355,094
Mar	688.00	8,149,953
April	721.30	10,945,111
May	841.10	12,098,402
June	878.40	14,994,366

At this point the returns cease to be reported monthly; but their progressive increase during the next year was in the proportion of 117 to 211, and for the year following in that of 211 to 309. The cost of living has advanced in a continuous ratio until it has reached a point at which, in our great cities, it is alarming even to people of liberal income, while to the mass it is distressing, and to the poor it has become a terror. The necessity is imposed of compensating for exorbitant

Progressive taxation.

rents by a reduction of healthful comforts, and even of the quality of food. It is not an overcoloring of the subject to say that thousands of the needier class are on the edge of famishing. The sanitary conditions of life are wanting, not only in outward circumstances, but in the impoverished blood of the body. If pestilence does not glare in the open streets, it lurks in cellars, alleys, and garrets, whence it may find its exit at any noon day, and seat itself on the steps of every house.

THE NATIONAL DEBT OF GREAT BRITAIN.

The apearance of the British debt.

The "British debt" has long been the haunting ogre of all fiscal theorists. And it may well be so. Its record, and the record of those who have had the management of it, is extraordinary in many aspects. It is frightful to contemplate, as a source of infinite sufferings to the people; it is grand to contemplate the people carrying it on their backs and, though oppressed by it, laughing at its increase as they go to wars in defence of rights, or for conquests that are to make them great; it is inscrutable to think of the wisest statesmen and economists struggling in vain to cancel or even to diminish it; and, in the words of Sir Morton Peto: "it is a truly lamentable consideration when we calmly reflect upon it, that the increasing national wealth should actually have been used, not to decrease, but to add to the amount of the already enormous national deficiencies."

Increased on growing resources.

We propose to make of the British debt an example for our own instruction. It has grown to its present magnitude on a steady advance of the ability to liquidate it. There was a time perhaps, as Sir Morton Peto tells us, when "it could by no means be said" that the debt was

within the resources of the nation. This was about the year 1830. If England had been involved in war at that time, her financial condition would have been embarrassing in the highest degree. In 1841 the taxation of the British Empire was £48,000,000, in Federal money $220,000,000. In 1862 it was £70,000,000 or $350,000,000.

"The financial operations of Mr. Gladstone in 1854–5 established the fact that it was futile to attempt to impose the entire burden of a war in the form of a levy of taxation from the people. A large proportion of the increased burden necessary for any future war must therefore be raised in the form of addition to the debt."*

We may hence infer that the British debt is very nearly as large as the people can support, notwithstanding the enormous exports of the United Kingdom, which reached in 1860, the prodigious sum of £136,000,000, or $680,000,000.

Revenue of the Government.

Of the total taxation above named, about $120,000,000 is derived from duties on imports, and $230,000,000 from what is called in the United States "internal revenue."

The total National Debt of Great Britain in 1861, was £799,949,807, or in round numbers eight hundred million of pounds sterling; in Federal count, four thousand million of dollars. The rate of interest is about 3.25 per cent. The following extracts from Sir Morton Peto's book show how the affairs of the British Treasury have been managed ·

* Taxation: its levy and expenditure, &c. By Sir S. Morton Peto. D. Appleton & Co. 1866.

"Not only have we increased our national debt during a period of increasing prosperity, but we have failed to make at any period of that prosperity the smallest foundation for the occurrence of emergencies. * * Our wars have actually found us unprepared with the finances to meet them. When the Russian war broke out, the revenue of the nation had risen from £47,000,000 in 1842 to nearly £54,500,000 in 1853, an increase of over seven millions and a half per annum. Yet of sixty-seven millions of money which during these eleven years of perfect peace, had thus been added to the national revenue, not one single farthing had been put by to meet an emergency! **Bad management of the taxes.**

"Since Sir Robert Peel's resignation of office no new principle has been developed in the administration of the finances of the nation. One would suppose, from the experience of the last twenty years that the taxation of the greatest nation of the world was susceptible of no improvement, and that in the levy and expenditure of some 140 millions of money annually there was nothing to be learnt. Since 1842 all that has been done to meet a difficulty has been to increase the income tax; all that has been done with the revenue when it had been increased, has been to find new objects on which to expend it. **No improvement in the last twenty years.**

"It is truly remarkable that with the advance of science, with the development of commerce, with the accumulation of wealth, with the improvements in intercourse, with better principles of legislation, better laws, and more just and speedy administration of them, no single attempt should have been made at improved administration of finance. The State seems to have no idea but to spend as much as possible; it applies no new idea either to the best mode of saving, or to the best mode of raising the money to spend. Others who possess means try to make them reproductive. **Extravagance the ruling idea.**

The State does nothing to make either its revenue or its expenditure reproductive. Its taxes are a dead weight, and so are its disbursements. Of all the seventy millions a year now collected and expended, it is difficult to find an item that can be shown to reproduce itself, except, it may be contended, in the order preserved amongst our population at home, and the protection afforded to our property and interests abroad.

It is the bone of political parties.

"What is most needed on this question is earnestness. The great financial interests of this kingdom, involving as they do the greatest commercial interests of the world, surely should not be dealt with as they are dealt with, in a mere party spirit, and as a means of shuffling the Government from the hands of one party into those of another. The speeches of rival Chancellors of the Exchequer, each imputing blame to the other, though they may excite the cheers of opposing parties within the house, and the temporary admiration of the unthinking out of doors, can scarcely be regarded as tending to a solution of the subject by those who have at heart the true interests of the people. Reproaches and invective in no way tend to reductions of taxation."

"What the nation really wants is the renewed application of a sound principle to its financial policy." pp. 9 to 12.

On the first page of this book Sir Morton puts the following questions:

Hard questions.

"What is the cause of the chronic disaffection which prevails in this kingdom on the subject of finance? Why are the people continually engaged in a struggle against the pressure of taxation? Why are ministers in perpetual jeopardy in discussions on the budget? Are the principles of our taxation sound or imperfect? Is our revenue raised from a willing or from a reluctant people? Are our taxes equitably or unequally ap-

portioned? Is the burden of taxation light or grievous? Is our expenditure well managed? Is it kept within reasonable limits? &c."

The last chapter of the work begins with a quotation from the Right Honorable James Wilson:

"Finance is not mere arithmetic; finance is a great policy; it lies at the bottom, at the root of the Government of every country. Without sound finance, no sound government is possible; without sound government, no sound finance is possible. In the commercial and fiscal policy of a nation lie the foundation, the happiness, the prosperity, and the welfare, not only of the working classes, but of the capitalists also."

Finance a great policy.

Again, Sir Morton:

"Since 1848 Parliament has exercised very little, and to all appearance a decreasing amount of control over the public expenditure. Estimates are submitted by the Government, objections taken to them are received with indifference and impatience by their supporters, and the amount demanded is voted in a lump," &c.

Loose administration of the treasury.

The author cites a case where "the first Minister of the Crown" called for two millions sterling for fortifications, and obtained it; but shortly after it was discovered that it was to build huge forts on a sand bank at Spithead where they would be utterly useless, and the appropriation was rescinded. Sir Morton speaks of "the absence of a governing principle in affairs;" of "how much is overdone in the departments, especially in printing;" "instead of simplification, multiplication is the rule;" he asks, "can we not find a man who will set himself to simplify?" —"If certain principles were laid down, not to

be departed from except in extremity, great national benefit would result." Referring to needless expenditures, waste and a thousand irregularities, he says:

"All this proceeds from the ill-considered, scattered, and unbusiness-like manner in which the finances of the country are administered, each department doing pretty much as it pleases, one very often quarreling with another, and all conspiring to resist, not only a general control, but even the operation of the law itself."

Like our own, the British Treasury embraces numerous bureaus which have no natural connection with each other, some of them utterly incongruous, and all forming such a tangled mass as makes order impossible.

The complication of its bureaus.

"The Home Office, Admiralty, the Colonial Office and the Emigration Board, all have a share in the Convict question; the Foreign Office, the War Office, the Colonial Office, the Admiralty, the Horse Guards and the Treasury, all have something to say on the question of Colonial military expenditure. One department differs from another; scarcely any two of them agree; there is no controlling power; for Parliament practically abdicates its control of the expenditure of the public money, and the consequence is not only confusion, but excessive expenditure and waste."

We conclude these extracts from Sir Morton's enlightening book with one that describes the social consequences of excessive taxation, and of a badly administered financial system; though little indeed does the British Treasury, any more than our own, deserve the name of *system*, unless

we may apply this term to a vast body and scene of disorder.

"In raising and expending one hundred and forty millions annually, we look to the burden which can be borne by the tax-payer—to the amount required for military, naval, and miscellaneous purposes; but we scarcely ever hear, in Budget speeches or debates upon Finance, one syllable as to the effect either of the taxes or of their expenditure upon the state of our poorer brethren. I do not refer to the indirect effect which the remission of a tax, or the increase or decrease of expense may have upon their welfare, but to the actual condition of our population, as directly affected by the system under which we live. It is an awful consideration that in England, abounding as it does with wealth and prosperity, there are nearly a million of human beings receiving indoor and outdoor relief as paupers in the different Unions, besides the still greater number dependent upon the hand of charity. As the population of England and Wales by the last census was 20,205,504, it follows that nearly one-twentieth part of our people are subsisting upon charity! I repeat that this is an awful fact, and one which, in the midst of our unrivalled prosperity, ought to cause us deep humiliation. When we congratulate ourselves upon the state of our country—when we swell with pride as we point to our palaces, our parks, our great national public works, the mansions of our nobles, the luxurious establishments of our great merchants and manufacturers, ought we not to feel abased at the idea that one in every twenty amongst us is a pauper?" *

How the debt promotes pauperism.

A dreadful confession.

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* Foot note from the same.—The number of paupers receiving relief in England and Wales was:

Jan. 1, 1819, indoor, 119,375; outdoor, 815,044; total, 934,419.
Jan. 1, 1862, " 142,400; " 790,000; " 932,400.

So that pauperism has not decreased in England during the period of the greatest prosperity in wealth and luxury which this country ever knew.

A parallel in the United States.

In nearly all of these extracts we read a description of our own affairs. We levy taxation and conduct expenditure on purely arbitrary grounds and without reference to a single principle of economy. The only rule of finance that our Treasury Department has discovered is to divide the sum total of debt by 28 and to adopt the result as the measure of our yearly burden. This rule has already destroyed the business of shipbuilding, the material basis of our sea transport which in 1866 amounted to near six hundred million of dollars in currency value, and is rapidly increasing. It has put a stop, in Mr. McCulloch's own words, to "the building of houses," the "erection of mills," and the "development of industry," "retarded the healthy growth of towns and cities" and "checked" improvement generally. "New mills," says the Secretary, "cannot be erected and put into operation with any prospect of fair returns upon the investment, unless upon the expectation that taxes will remain as they are, and prices be sustained, if they are not advanced." What an unnatural extremity is this that makes the profits of one class of people consist in the oppressive taxation of other classes? If we have already reached that point, we are well on the way in the footsteps of the English pattern, and may begin to prepare our national poorhouses.

The United States following in the footsteps of England.

In other respects also, we follow the example of our illustrious mother. While progress is achieved in every other branch of human interests, in finance there is none. We do not deal with finance as "a great policy," which has appro-

priate laws and principles, but as a great accident to be carried along by temporary expedients. "Give us a settled policy" is the cry of all our capitalists. "What is the cause of the chronic disaffection which prevails in this kingdom on the subject of finance?"—asks Sir Morton Peto on British ground—a question of which the echo does not cease for one instant in the United States. Sir Morton tells us of ten million of dollars voted in the British parliament to build useless fortifications on the sand banks at Spithead, of which we have a ready parallel in "League Island." He tells us of the enormous expenses of printing in the Treasury offices, and of the complexities and circumlocutions of the numerous bureaus; we have exact copies of the same. "If certain principles were laid down, not to be departed from except in extremity," he suggests, and we respond in the same words.

The parallel continued. "The great financial interests of this kingdom," he says, "surely should not be dealt with as they are dealt with, in a mere party spirit, and as a means of shuffling the government from the hands of one party into those of another." All we have to do is to write "the United States" instead of "kingdom" and the history is perfect. To his sad and revolting picture of the pauperism resulting from excessive and ill-managed taxation, we are yet happily without a parallel; but how long we may remain so is an open problem, if we may accept Mr. McCulloch's account of the unfortunate condition of our business affairs together with his total incapacity to devise any plans for its improvement.

Mitigating facts.

On this point of commercial and industrial depression, the Secretary is grossly in error, so far as he keeps out of view the recuperative forces of the country. We have a long way to go, yet, before we approach the really critical condition of the British example. We have terms of wealth, resources of production, and elements of inherent strength, that need only to be disencumbered of the Treasury incubus, when they would spring at once into flourishing vigor. Capital is more than abundant. It cries out for something better to do than to engage in the perilous speculations of Wall street. Let there be a commercial and not a political brain in the Treasury department, and these elements will show themselves irrepressible, even by the present exorbitant taxation.

Finance a science.

We desire to call special attention to the recognition in the passages from Sir Morton's book, of the leading idea which we have endeavored to illustrate in this volume, viz.: that finance is capable of being constructed into a scientific system. The roots of science are in every term of our economy, and partial organization already exists in a thousand separate circles. The great primary terms—our common nature and common want, common incentives, common ability, common laws and language, common and mutual dependence; the co-operative forms and institutions growing upon these; the common improvements by which society is bound together, the reciprocal labors and industries of the country—all point and tend in one direction, and of themselves converge towards a relation of harmony and fitness which constitutes the character of a scientific system.

From anything in Sir Morton's book, it does not appear that the financial affairs of the British Treasury are better organized than our own. They are in the same unsatisfactory, unimproving condition. That part of the machinery of society which has been in private hands, shows a wonderful progress. Commerce, industry and labor have done everything to facilitate movements, to save time, to economize power, to unite in a system all the interests in their charge; besides supporting themselves and accumulating capital, they have supported the State. But the government has not improved its methods of doing business in a single important respect, for twenty years past; it has not conceived a new idea, but pursued its old blind way, stumbling over the improvements of society, seemingly unconscious of their existence. The National Debt has gone on grinding the people to powder, until one in every twenty of them is reduced to the necessity of begging for a subsistence.

British financiers no better than American.

And all this takes place, as a member of the British Parliament tells us, "during the period of the greatest prosperity in wealth and luxury which England ever knew," while the resources of the country are rapidly on the increase, and when there is not the slightest doubt of their efficiency to put the debt in effective liquidation, while at the same time reducing the taxation from year to year.

It is at this point that the people of the United States may reap instruction from the British example. Why is it that the debt has not been reduced? Not through any deficiency of

Instructive lesson.

revenue, but simply because the Treasury has no plan of liquidation, no policy, no principles of financial science applied in its administration. When the Sinking Fund was abolished, Parliament declared that "for the future the amount of the Sinking Fund should be the actual surplus of the revenue over the expenditure." In getting rid of one error, it fell into the opposite of putting expenditure before liquidation, a very subtle mistake which has led to the gravest of consequences. There is a certain revenue for the year. What ought to be the first application of that revenue? Beyond all doubt, the debt. What is then left should be the limit of expenditure. This is the commercial, the natural order. But the political order is the reverse. The budget of general appropriations is opened first, and the whole revenue is laid out before it, without a line to mark the claim of the debt, either for interest or liquidation. When the last current requirement is provided for, it is fortunate if the interest can be met without a deficit. This is a sufficient reason why the management of the debt should be put into the care of a separate bureau with its own special revenue, where the current expenditure should never invade it.

The cart before the horse.

The British debt not the real burden;

If we suppose such a separation to be established in the British Treasury, the very first thing that becomes apparent, is, that the debt is not the burden under which the kingdom reels. Look at the figures:

Total revenue of 1861, (assumed to be equal to the gross expenditure)	£72,842,000
Interest on the debt	26,000,000
Current expenditure	£46,842,000

It is this last great sum, nearly double of the annual interest, that grinds to powder the working classes of England. Sir Morton's book shows that there is enough of this spent on useless establishments, on sinecures, pensions for the rich, salaries for imaginary incumbencies, official gratuities, and in almost every form of extravagance and waste, to liquidate the debt even more rapidly than might consist with a just regard to the general economy of the kingdom. but the current expenditure.

For the readier understanding of the American reader, we convert the foregoing statement into Federal money:

Total revenue of the British Government for the year 1861	$364,210,000
Interest on the debt	130,000,000
Current expenditure for 1861	$234,210,000

Taking the annual interest as the measure of the debt, and that is the only true measure, the National debt of the United States is just one-fourth larger than that of Great Britain; but adding the current expenditures to each, the latter is one-fifth greater than the former. The comparison is as follows: Debt of the United States larger than the British.

	Interest.	*Total Expenditure.*
Great Britain	$130,000,000	$364,210,000
United States	162,000,000	305,000,000

It is not alone the interest on the public debt that expresses the yearly burden, but the total taxation. The material thing to be considered is, the charge on the labor, industry and commerce of the country; and in comparing the Total yearly taxation the measure.

charge of one country with another, the relative resources must be taken into account. On all bearings, the yearly taxation of the United States is doubtless much below that of Great Britain; but it is not within the scope of our present purpose to dilate on this point.

Pauperism a natural result in England.

A special consideration of the most serious and momentous nature is suggested by the prodigious tax laid on the productive and industrial labors of the British Kingdom, in connection with its influence on the popular life, as it is represented by Sir Morton Peto, and by other writers on this subject. It is this: that the inequality of condition in the extreme classes has become so confirmed by the long-continued action of excessive taxation, that the tendency to pauperization is no longer an accidental, but a constitutional fact. As the weight of a tax is always more grievous on the poor than on the rich, the unequalizing process never ceases. Is not this the explanation of the sad record that every twentieth inhabitant of England and Wales is a pauper? And this is not the whole record. There is another twentieth in the next gradation, which is but little removed from the same condition; and another grade still but little removed from that. Society consists of these grades from the lowest upward, which touch each other in the scale.

Resources are never inexhaustible.

The British people, like ourselves, boast of "inexhaustible resources," and like ourselves, we fancy, are misled by the boast. However

great may be the natural wealth or the accumulated property of a country, the only resource of the State is that portion of the profits of the labor and industry of the people that is collectable by tax. Coal mines and gold mines are nothing to the public treasury beyond the tax paid by the owners. And this is not an "inexhaustible" but an exhaustible resource. It is far from certain that the taxation of England is not very nearly exhausted at the present moment. As soon as a tax begins to oppress labor, pushing it towards pauperism, the proper limit of it is surpassed, and that resource is exhausted. The great hoards of wealth in England may pay their annual tribute to the revenue very willingly and without distress to the payers, but the limits of taxation may nevertheless be reached, beyond which the legislature cannot go one step but at the risk of revolution ; and what then will become of the "inexhaustible resources" of the country?

Pauperism in the United States.

Let us not, like the ostrich, conceive that we escape danger by covering our eyes. The process of pauperization has begun in the United States. The two Treasury reports of Secretary McCulloch prove it. Happily it is not with us as with England, that our resources are exhausted ; but we have the effects of exhaustion proceeding from the bad administration of the debt—the very same that in England have resulted from the long-continued extreme pressure on her working muscle. But of what consequence is it to a man whether the instrument that knocks him down is made of wood or of iron?

It is the deprivation of food that starves him, and the oppression of labor is the deprivation of food. "Sir Robert Peel certainly did show us," says Sir Morton, "that a readjustment of taxation on sound principles might be made a means of adding to the national wealth and to the prosperity of the people without any diminution of the national revenue." This is the problem that seems to be beyond the apprehension of our Treasury department.

Limits of taxation in the United States.

There is a closer limit of taxation in the United States than there is in England. Our resources may be the greater, and yet their exhaustibility be more imminent. The American man will not allow the mere sufficiency of food and a glass of beer to be the measure of his wants. His intellectual nature also is to be supported. The moment taxation takes from his evening table the newspapers, magazines, and books which make the bread of his public life, that moment its extreme bounds are touched, and the "inexhaustible resources" of which we boast so proudly are on the verge of exhaustion. In fact we touch this crisis already, not as England does, by the natural results of a long process of unequalization favored by laws of entail and primogeneture, but by the accident of bad management purely, and through the incompetency of immediate administration.

Making taxation and expenditure productive.

The only meaning possible to be assigned to the theory of *making taxation and expenditure productive*, is that which we have explained in

connection with the levy, and the application of the revenues to the extinction of the public debt. The payment of taxes cannot of itself be productive to the payer, because it is a loss of capital. The greater economy he may practice in order to meet the tax has no logical connection in the argument. It is therefore a relative and not a positive advantage that is to be secured; it is to choose that method by which the least injury is reflected on business and property, instead of another that reflects greater injury. The simpler form to express the theory is, that taxation shall be so levied as to disturb in the smallest degree the fruitful employment of capital, and that the collections shall be paid out again as quickly as possible to restore the capital which has been so displaced.

Constant applied to the British debt.

In the tables that follow, we have applied to the British debt, the same plan of liquidation as we have proposed for our own. The result appears to dispel the terrors that have so long hung over it. The adoption of the same annual constant, viz.: ten million of dollars, or only two million of pounds sterling, will pay off the whole debt of England in two hundred and thirty-six years. We do not think it necessary to give the tables for this scale in full, our chief design being to show the great power of a small constant uninterruptedly applied. For a higher constant—of twenty-five million of dollars, or five million of pounds sterling, we give the full tables; and show by them, that the debt can be completely extinguished in one hundred and

nine years. Doubtless some additional debt may accrue during that period from war or other emergency; but the yearly reduction is so small that the process of payment may be continued notwithstanding.

The action of a constant of two million of pounds sterling, or ten million of dollars will reduce the debt as follows:

Summary of process.

	TAXATION IN MILLIONS.		DEBT IN MILLIONS.
1867 to 1893	140	will reduce to	3601
1893 to 1918	128	do	3187
1918 to 1943	115	do	2758
1943 to 1972	100	do	2271
1972 to 1998	85	do	1824
1998 to 2026	70	do	1346
2026 to 2052	55	do	896
2052 to 2080	40	do	411
2080 to 2103	25	do	22

If this seems too slow a process, it will be remembered that it comes about by so simple a measure as that of reducing the current expenditures of the government from forty-six million to forty-four million sterling, or a little over four per cent. Sir Morton Peto's book proves substantially that five times this sum is wasted yearly.

The following table assumes a constant of five million of pounds, or twenty-five million of dollars.

The taxation of the first period begins with that amount above the interest on the debt viz: $155,000,000.

1867...$4,000,000,000.$130,000,000
25,000,000

1868....3,975,000,000..129,187,500
25,812,500

1869....3,949,187,500..128,348,594
26,651,406

1870....3,922,536,094..127,482,423
27,517,577

1871....3,895,018,517..126,588,101
28,411,899

1872....3,866,606,618..125,664,715
29,335,285

1873....3,837,271,333..124,711,317
30,288,683

1874....3,806,982,650..123,726,935
31,273,065

1875....3,775,709,585..122,710,562
32,289,438

1876....3,743,420,147..121,661,154
33,338,846

1877....3,710,081,301..120,577,642
34,422,358

1878....3,675,658,943..119,458,914
35,541,086

1879....3,640,117,857..118,303,829
36,696,171

1880....3,603,421,686..117,111,205
37,888,795

1881....3,565,532,891..115,879,819

1881...$3,565,532,891.$115,879,819
39,120,181

1882....3,526,412,710..114,608,413
40,391,587

1883....3,486,021,123..113,295,686
41,704,314

1884....3,444,316,809..111,940,296
43,059,704

1885....3,401,257,105..110,540,856
44,459,144

1886....3,356,797,961..109,095,932
45,904,068

1887....3,310,893,893..107,604,052
47,395,948

1888....3,263,497,945..106,063,682
48,936,318

1889....3,214,561,627..104,473,252
50,526,748

1890....3,164,034,879..102,831,134

The second period reduces the taxation to $130,000,000.

1890...$3,164,034,879.$102,831,134
27,168,866

1891....3,136,866,013..101,948,145
28,051,855

1892....3,108,814,158..101,036,458
28,963,542

1893....3,079,850,616..100,095,145

1893	$3,079,850,616	$100,095,145
	29,904,855	
1894	3,049,945,761	99,123,235
	30,876,765	
1895	3,019,068,996	98,119,742
	31,880,258	
1896	2,987,188,738	97,083,633
	32,916,367	
1897	2,954,272,371	96,013,853
	33,986,147	
1898	2,920,286,224	94,909,301
	35,090,699	
1899	2,885,195,525	93,768,857
	36,231,143	
1900	2,848,964,382	92,591,343
	37,408,657	
1901	2,811,555,725	91,375,560
	38,624,440	
1902	2,772,931,285	90,120,267
	39,879,733	
1903	2,733,051,552	88,824,174
	41,175,826	
1904	2,691,875,726	87,485,960
	42,514,040	
1905	2,649,361,686	86,104,255
	43,895,745	
1906	2,605,465,941	84,677,642
	45,322,358	
1907	2,560,143,583	83,204,667

1907...	$2,560,143,583..	$83,204,667
	46,795,333	
1908....	2,513,348,250..	81,683,816
	48,316,184	
1909....	2,465,032,066..	80,113,540
	49,886,460	
1910....	2,415,145,606..	78,492,232

The third period reduces the taxation to $105,000,000.

1910...	$2,415,145,606..	$78,492,232
	26,507,768	
1911	2,388,637,838..	77,630,729
	27,369,271	
1912....	2,361,268,567..	76,741,226
	28,258,774	
1913....	2,333,009,793..	75,822,819
	29,177,181	
1914....	2,303,882,612..	74,874,559
	30,125,441	
1915....	2,273,707,171..	73,895,481
	1,104 519	
1916....	2,242,602,652..	72,884,584
	2,115,416	
1917....	2,210,487,26..	71,840,834
	33,159,166	
1918....	2,177,328,070..	70,763,160
	34,236,840	
1919 ...	2,143,091,230..	69,650,464

1919...$2,143,091,230..$69,650,464
35,336,536

1920.... 2,107,741,694.. 68,501,605
36,498,395

1921.... 2,071,243,299.. 67,314,407
37,685,593

1922.... 2,033,557,706.. 66,090,625
38,909,375

1923.... 1,994,648,331.. 64,826,070
40,173,930

1924.....1,954,474,401.. 63,520,418
41,479,582

1925.....1,912,994,819.. 92,172,331
42,827,669

1926.... 1,870,167,150.. 60,780,431
44,219,569

1927.... 1,825,947,581.. 59,343,297
45,656,703

1928.....1,780,290,878.. 57,859,454
47,140,546

1929.....1,733,150,332.. 56,327,385
48,672,615

1930.....1,684,477,717.. 54,745,525

The fourth period reduces the taxation to $80,000,000

1930...$1,684,477,717..$54,745,525
25,254,475

1931.....1,659,223,242.. 53,924,754

1931	$1,659,223,242	$53,924,754
	26,075,246	
1932	1,633,147,996	53,077,310
	26,922,690	
1933	1,606,225,306	52,202,322
	27,797,678	
1934	1,578,427,628	51,298,897
	28,701,103	
1935	1,549,726,525	50,366,111
	29,633,889	
1936	1,520,092,636	49,403,009
	30,596,991	
1937	1,489,495,645	48,408,607
	31,591,393	
1938	1,457,904,252	47,381,886
	32,618,114	
1939	1,425,286,138	46,321,798
	33.678,202	
1940	1,391,607,936	45,227,260
	34,772,740	
1941	1,356,835,196	44,097,144
	35,902,856	
1942	1,320,932,340	42,930,300
	37,069,700	
1943	1,283,862,640	41,725,534
	38,274,466	
1944	1,245,588,174	40,481,613
	39,518,387	
1945	1,206,069,787	39,197,267

1945...	$1,206,069,787..	$39,197,269
	40,802,731	
1946....	1,165,267,056..	37,871,178
	42,128,822	
1947....	1,123,138,234..	36,501,991
	43,498,009	
1948 ...	1,079,640,225..	35,088,307
	44,911,693	
1949....	1,034,728,532..	33,628,676
	46,371,324	
1950....	988,357,208..	32,121,609
	47,878,391	
1951....	940,478,817..	30,565,561
	49,434,439	
1952....	891,044,378..	28,958,943

The fifth period reduces the taxation to $55,000,000.

1952....	$891,044,378..	$28,958,943
	26,041,057	
1953....	865,003,321..	28,112,607
	26,887,393	
1954....	838,116,928..	27,238,767
	27,761,333	
1955....	810,354,695..	26,336,528
	28,663,472	
1956....	781,691,223..	25,404,964
	29,595,036	
1957....	752,096,187..	24,443,123

1957....	$752,096,187..	$24,443,123
	30,556,877	
1958....	721,539,310..	23,450,027
	31,549,973	
1959....	689,989,337..	22,424,652
	32,575,348	
1960....	657,413,989..	21,690,957
	33,309,043	
1961....	624,104,946..	20,283,412
	34,716,588	
1962....	589,388,358..	19,155,120
	35,844,880	
1963....	553,543,478..	17,990,164
	37,009,836	
1964....	516,533,642..	16,787,342
	38,212,658	
1965....	478,320,984..	15,545,432
	39,454,568	
1966....	438,866,416..	14,263,158
	40,736,842	
1967....	398,129,574..	12,939,209
	42,060,791	
1968....	356,068,783..	11,572,236
	43,427,764	
1969....	312,641,019..	10,160,832
	44,839,168	
1970....	267,801,851..	8,703,559
	46,296,441	
1971....	221,505,410..	7,198,925

1971....	$221,505,410..	$7,198,925
	47,801,075	
1972....	173,704.335..	5,645,390
	49,354,610	
1973....	124,349,725..	4,041,365
	50,958,635	
1974....	73,391,090..	2,385.240
	52,614,760	
1975....	20,776,330	

To convert the foregoing table into sterling divide by 5.

British writers of eminence, generally, seem to avoid the subject of their national debt as either distasteful or impracticable, leaving it to a flippant class of faultfinders to form public sentiment regarding it. Mr. John Stuart Mill, the latest of the former, and by many esteemed as the ablest, in his two volumes of Political Economy, embracing more than twelve hundred pages octavo, devotes but nine or ten pages to the consideration of national debts in general, and says nothing at all of the British debt.*

British writers shy of their debt.

* Mr. Mill cannot excuse his omission by alleging that it was out of the proper scope of his enquiry to treat of the debt, since he exceeded that scope and went far outside of the grave purpose of his volumes, to abuse and slander the United States. In the preface of the edition from which we quote, the author says:

"The present fifth edition has been revised throughout, and the facts on several subjects brought down to a later date, &c." We make the following extracts from this edition, which was republished by the Appletons in 1864, the third year of the rebellion:

"The northern and middle States of America have apparently got rid of all social injustices and inequalities that affect persons of Caucasian race and of the male sex. They have the six points of chartism, and they have no poverty, and all that these advantages seem to have yet done for them (notwithstanding some incipient signs of a better tendency) is that the life of the

Yet he treats in particular of every condition and circumstance growing out of, and affected by it. Are we thence to conclude that liquidation as a reality, is laid on the shelf? Such would seem to be the case; and indeed, there is but little evidence going to show that the intention of final payment ever was, or that it is now entertained by the government. Sir Morton Peto's book makes it manifest that the subject can no longer be ignored. Without attacking the government, he lays open the facts in a more clear and conclusive manner than has been done heretofore. He places them in apposition. No reasoning man can look at them without feeling that they are a great thunder-cloud which may at any time break with dreadful effect over the kingdom unless the lightning-rods of liquidation be put up to draw the threatening element in silence.

Liquidation of the debt feasible.

While Sir Morton makes a terrible development, he at the same time, points to the door of

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whole of one sex is devoted to dollar-hunting, and of the other to breeding dollar hunters." Vol. ii, p. 337.

In commenting on a "graduated property tax," Mr. Mill says: "Except the proposal of applying a sponge to the national debt, no such palpable violation of common honesty has found sufficient support in this country, during the present generation, to be regarded as within the domain of discussion. * * That such a proposition should find any favor is a striking instance of the want of conscience in matters of taxation, resulting from the absence of any fixed principles in the public mind, and of any indication of a sense of justice on the subject in the general conduct of governments. Should the scheme ever enlist a large party in its support, the fact would indicate a laxity of pecuniary integrity in national affairs, scarcely inferior to American repudiation." Vol. ii, p. 403.

Neither of these paragraphs was necessary to illustrate the enquiries in which the author was engaged, and both are destitute of truth, applied either to past or to the present time.

escape and shows it to be wide enough to let England out of her difficulty. He shows the debt proper to be only one-third of the annual burden, and that the current expenditures composing the two other thirds greatly exceed all reasonable and necessary bounds. Consequently, it is simply a matter of volition in the government whether the taxation that now grinds the British people to powder shall be reduced or not. We show by the foregoing plan, that the curtailment of the expenditures in the trifling measure of ten per cent. from their face, will extinguish the debt in little over a century; and that on a steadily decreasing rate of taxation. We have shown that even so small an economy as four per cent. on the yearly expenditure, will achieve the same result in 236 years. Is it not worth while for British statesmen to put forth an effort in this direction? To read Sir Morton's book, it is as plain as the sun in the sky that the childish gratuities bestowed by the government every year on persons and objects that do not need them, far exceed the amount required; and that the frauds on the revenue, that might be prevented, are probably three or four times over sufficient for the purpose. Indeed we may allege that the frauds of the British treasury itself on the people, if applied to the payment of the national debt, would extinguish it within the shorter period above named; for what is it but fraud on the part of a government to divert the taxes collected from labor and industry, to swell the luxury of idle functionaries who already surfeit in their possessions?

Liquida- of the debt a matter of choice with the British government.

The warning of labor.

The voice of labor, complaining for generations past, now accumulates, and sounds like the roar of an approaching tempest. If England would save herself she must listen to, and obey it; for in these latter days, the people are stronger than any organization of politicians.

PROCESS OF CONVERSION OF THE VARIOUS LOANS INTO ONE SIX PER CENT. KIND.

On referring to the current list of loans on page 30, it will be seen that it is composed of the following four kinds:

Ten-forties	5	per cent	$171,219,100
Sixes of 1881	6	"	150,523,550
Five-twenties	6	"	722,205,500
Seven-thirties	7.30	"	945,553,250
			$1,989,501,400

The remaining portion of the funded debt consists of some remainders that will probably never be claimed, and of four loans amounting to $45,345,591 which mature within six years. It seems hardly necessary to change these, and we therefore leave them to run to liquidation. The total of all is $46,215,487.

The temporary loans, certificates of indebtedness, and compound interest notes amounted at the date given, to $305,579,336. These have undergone changes, and are still subject to change. We cannot therefore give their precise terms.

To convert the above rates into one six per cent. kind, we take their present income, and estimate from it the principal to be allowed in exchange.

The income is as follows:

Of Ten-forties	$171,219,100	5	per cent	$8,560,955
Of Five-twenties and 6's of '81.	872,729,050	6	"	52,363,743
Of Seven-thirties.	945,553,250	7.30	"	69,025,387
				$129,950,085

The principal of $8,560,955 at 6 per cent. is....	$ 142,682,583
And of $69,025,387, it is..............	1,150,423,121
The Five-twenties, &c., already at 6 per cent....	872,729,050
Of $129,950,085 at 6 per cent. is...............	$2,165,834,754

So that on these kinds the face of the debt would be increased by $176,333,354.

The options connected with the Seven-thirties may be considered a balance to the coin interest on the Five-twenties.

To this sum would be added the transient forms above named, $305,579,336 more or less, and the treasury note circulation which would finally come in $427,962,244 more or less, and the grand total of the debt will then be, exclusive of the old portion left to run out, $2,899,376,334, at six per cent. interest.

There is no real difficulty in carrying this conversion into practical effect. Instead of calling in every bond at once, it would be sufficient to announce the face of the converted ones officially, thus making a constructive change, leaving it to the convenience of the bond-holder to come forward and claim the new bond—all of which could be done in the bureau at Washington in a few hours.

The public creditor would then have his investment under a plain common-sense law of a dozen lines in his own native language, which he could get by rote in a few minutes, and which would be as familiar to him as the alphabet, instead of being obliged to grope through near an hundred pages of legal jargon which the authors themselves do not understand, and cannot explain.

NOTES.

Note to pp. 137 *to* 140.—Robbery of the public treasury is a continuous crime in all civilized countries. The larger the theft, the less blamed and punished the thief. If the amount stolen is so small as practically to hurt nobody, and the stealer has few friends, the law is invoked promptly and severely to make "an example" of him; but if the amount is large and the felon bold enough to embarrass the whole state by his crime, he is only "held to bail," and bailed by accessories whom his robberies have made rich for that purpose—and the end is that he slides off the docket as a persecuted man, highly respected by a large and overflowing circle of friends, who are fond of dinners, and creams and wine. The only real "example" on record, that we can cite at the moment, of great public thieves being pursued and punished on the scale that is applied to small ones, is that of *Fouquet* and his train. That "amiable and scandalous millionaire" was financial superintendent to Louis XIV.

"A mad rival of his monarch, the Superintendent made pretensions to eclipse him by prodigious luxury. Under favor of great disorder in the finances, he took, without counting, and without rendering an account he made more pensions than the king. Soon intoxicated by the splendors which he commanded, by the device which his pride invented, *qui non ascendam?* he dreamed of recommencing the Fronde, fortified Belle Isle, kept guards, not fearing to expose his peculations, and doing the honors of a bankrupt state to the king himself.—It required four months of silent preparation to be enabled to arrest *Fouquet*." "Some of his train were condemned

to death, while he, voluntarily couched upon straw, expiated his depredations by repentance."

Colbert, the successor of *Fouquet*, arrested his suspected auxiliaries and subordinates.

"A chamber of justice, instituted by a violent edict, prepared exemplary punishment for whomsoever shall be *convicted of malversations in our finances, and of having impoverished our provinces*, says the preamble. Suspected fortunes are to be controlled; their origin to be sought for and discovered. Every one who has touched the public property, from the proud accomplices of *Fouquet* to the lowest tax collector, must furnish a sworn statement of his property, of the inheritances he has received, and of the sums given by him in marriage to his children. Every one must show his actions to the light of day, and unfortunate are those who, by the vanity of their profusions shall have already betrayed an unlawful opulence."

"This inauguration of good order arrested a general bankruptcy. An hundred and ten million, restored by the farmers of the revenue, re-entered the treasury; speculators who had enriched themselves by the public distress, those who had purchased the octrois at a fraudulent price, false creditors, were sacrificed to a State they were devouring, &c."—*Hist. French Revolution*, by Louis Blanc.

In 1779, General Washington wrote to the Governor of Pennsylvania:

"It gives me very sincere pleasure to find that the Assembly is so well disposed to second your endeavors in bringing those murderers of our cause, the monopolizers, forestallers and engrossers, to condign punishment. It is much to be lamented that each State, long ere this, has not hunted them down as pests to society, and the greatest enemies we have to the happiness of America. I would to God that some one of the more atrocious in each State was hung in gibbets upon a gallows five times as high as the one prepared for Haman. No punishment in my opinion is too severe for the man who can build his greatness on his country's ruin."

Note on the rate of interest, to page 166.—Mr. Horsley Palmer testified before the Parliamentary Bank Committee of 1832 concerning the causes of the panic which prevailed in England in 1824 and 1825:

"I have always considered that the first step towards the excitement was the reduction of the interest upon the government securities. I have always considered that reduction to have created the feverish feeling in the minds of the public at large, which prompted almost everybody to entertain any proposition for investment, however absurd, which was tendered. Inducements were held out for engaging in mining operations in South America, &c. With those speculations arose general speculation in commercial produce, which had an effect of disturbing the relative values between this and other countries, and creating an unfavorable foreign exchange, &c. The failures that followed caused a general discredit throughout London and the interior."

Note to page 128, *on the Independent Treasury.*—Mr. Guthrie, after praising the Independent Treasury for the "timely control" that it may exert in certain conditions of business, says, in his report for 1866:

"The Independent Treasury, however, may exercise a fatal control over the currency, the banks, and the trade of the country, and will do so, whenever the revenue shall greatly exceed the expenditures. There has been expended, since the 4th of March, 1853, more than $45,525,000 in the redemption of the public debt. This debt has been presented from time to time, as the money accumulated in the national treasury and caused stringency in the money market. If there had been no public debt and no means of disbursing this large sum and again giving it to the channels of commerce, the accumulated sum would have acted fatally on banks and on trade." p. 32.

The balances on hand at any one time during the four years (nearly) in which the above-named sum of forty-five million was paid, did not exceed, probably, two or three million of dollars at the highest. And yet, Mr.

Guthrie says in another part of the same report, that their timely disbursement into the channels of commerce prevented stringency and distress in the money market. What would this then sturdy advocate of the Independent Treasury, say now, when one hundred and sixty million of the proper circulating capital of the country is held sequestered in the government vaults! In the most prosperous times that any nation has ever enjoyed, such an abstraction of its capital would have caused the immediate suspension of specie payments, and the ruin of every branch of trade. That it now prevents the return to specie payments, is equally certain.

ANALYTICAL INDEX.

From President T. D. WOOLSEY, *Yale College.*

"Your book interests students more than any I have ever instructed from. This my second class proves abundantly. I agree with you on tariffs for protection."

From Prof. DIMAN, *Prof. of Political Economy, Brown University.*

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43
44
45